WNS (HOLDINGS) LTD
Form 6-K
October 19, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange
Act of 1934
For the quarter ended September 30, 2011
Commission File Number 001 32945
WNS (HOLDINGS) LIMITED
(Exact name of registrant as specified in the charter)
Not Applicable
(Translation of Registrant s name into English)
Jersey, Channel Islands
(Jurisdiction of incorporation or organization)
Gate 4, Godrej & Boyce Complex
Pirojshanagar, Vikhroli (W)
Mumbai 400 079, India
+91-22 - 4095-2100
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): **Not applicable.**

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WNS (Holdings) Limited is incorporating by reference the information and exhibits set forth in this Form 6-K into its registration statements on Form S-8 (File No. 333-136168), Form S-8 (File No. 333-157356), Form S-8 (File No. 333-176849) and Form F-3 (File No. 333-177250).

CONVENTIONS USED IN THIS REPORT

In this report, references to US are to the United States of America, its territories and its possessions. References to UK are to the United Kingdom. References to India are to the Republic of India. References to $ or dollars or US dollars are to the legal currency of the US and references to or rupees or Indian rupees are to the legal currency of India. References to pound sterling or £ or pence are to the currency of the UK. References to the Euro are to the legal currency of the European Monetary Union. Our financial statements are prepared in US dollars. Until March 31, 2011, we prepared our financial statements in accordance with US generally accepted accounting principles (US GAAP), which is considered our Previous GAAP. With effect from April 1, 2011, we adopted the International Financial Reporting Standards and its interpretations (IFRS), as issued by International Accounting Standards Board (IASB). Our financial statements included in this report are prepared in accordance with IFRS, as issued by IASB, as in effect as at September 30, 2011. To the extent IASB issues any amendments or any new standards subsequent to September 30, 2011, there may be differences between IFRS applied to prepare the financial statements included in this report and those that will be applied in our annual financial statements for the year ending March 31, 2012.

The financial statements included in this report are our second IFRS condensed interim consolidated financial statements and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied. These unaudited condensed interim consolidated financial statements do not include all the information required for full audited annual consolidated financial statements and are prepared in accordance with IAS 34, *Interim Financial Reporting* . An explanation of how the transition to IFRS has affected our reported financial position and financial performance is provided in Note 2.w. to the unaudited condensed interim consolidated financial statements included in this report. Note 2.w. includes reconciliations of equity as at April 1, 2010, September 30, 2010 and March 31, 2011, and profit and comprehensive income for the three months and six months ended September 30, 2010 and for the year ended March 31, 2011. References to a particular fiscal year are to our fiscal year ended March 31 of that year. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

In this report, unless otherwise specified or the context requires, the term WNS refers to WNS (Holdings) Limited, a public company incorporated under the laws of Jersey, Channel Islands, and the terms our company, we, our and us refer to WNS (Holdings) Limited and its subsidiaries.

We also refer in various places within this report to revenue less repair payments, which is a non-GAAP measure that is calculated as revenue less payments to automobile repair centers and more fully explained in Management s Discussion and Analysis of Financial Condition and Results of Operations. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with IFRS. Unless otherwise indicated, references to GAAP in this report are to IFRS, as issued by IASB.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, will, project, seek, should and simi Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources and the impact of our adoption of IFRS, as issued by IASB. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be materially incorrect. These risks and uncertainties include but are not limited to:

- worldwide economic and business conditions;
- political or economic instability in the jurisdictions where we have operations;

regulatory, legislative and judicial developments;

our ability to attract and retain clients;

technological innovation;

telecommunications or technology disruptions;

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future regulatory actions and conditions in our operating areas;

our dependence on a limited number of clients in a limited number of industries;

our ability to expand our business or effectively manage growth;

our ability to hire and retain enough sufficiently trained employees to support our operations;

negative public reaction in the US or the UK to offshore outsourcing;

increasing competition in the business process outsourcing industry;

our ability to successfully grow our revenue, expand our service offerings and market share and achieve accretive benefits from our acquisition of Aviva Global Services Singapore Pte. Ltd., or Aviva Global (which we have renamed as WNS Customer Solutions (Singapore) Private Limited, or WNS Global Singapore following our acquisition) and our master services agreement with Aviva Global Services (Management Services) Private Limited, or AVIVA MS, as described below;

our ability to successfully consummate strategic acquisitions; and

volatility of our ADS price.

These and other factors are more fully discussed in our other filings with the Securities and Exchange Commission, or the SEC, including in Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in our annual report on Form 20-F for our fiscal year ended March 31, 2011. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans, objectives or projected financial results referred to in any of the forward-looking statements. Except as required by law, we do not undertake to release revisions of any of these forward-looking statements to reflect future events or circumstances.

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Part I FINANCIAL INFORMATION
WNS (HOLDINGS) LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited, amounts in thousands, except share and per share data)

	Notes	As at September 30, 2011	As at March 31, 2011	As at April 1, 2010
ASSETS				
Current assets:				
Cash and cash equivalents	4	$ 16,134	$ 27,090	$ 32,311
Bank deposits and marketable securities			12	45
Trade receivables	5	55,951	78,586	44,821
Unbilled revenue		37,606	30,837	40,892
Funds held for clients		12,114	8,799	11,372
Current tax assets		3,405	8,502	5,602
Derivative assets	10	5,840	11,182	22,808
Prepayments and other current assets	6	22,754	16,447	16,694
Total current assets		153,804	181,455	174,545
Non-current assets:				
Investments		2	2	
Goodwill	7	87,555	93,533	90,662
Intangible assets	8	132,162	156,587	188,079
Property and equipment	9	48,501	47,178	48,547
Derivative assets	10	1,919	2,282	8,375
Deferred tax assets		39,586	33,518	25,200
Other non-current assets	6	7,450	8,040	8,611
Total non-current assets		317,175	341,140	369,474
TOTAL ASSETS		**$ 470,979**	**$ 522,595**	**$ 544,019**
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables		$ 32,611	$ 43,748	$ 27,900
Provisions		35,011	32,933	43,390
Derivative liabilities	10	15,699	9,963	17,597
Pension and other employee obligations		25,654	31,029	31,023
Short term line of credit		18,982	14,593	
Current portion of long term debt		70,075	49,392	39,567
Deferred revenue		5,559	6,962	4,891
Income taxes payable		4,166	3,088	2,550
Other liabilities	12	3,919	4,126	8,745

Total current liabilities		211,676	195,834	175,663
Non-current liabilities:				
Derivative liabilities	10	2,318	431	7,600
Pension and other employee obligations		4,387	4,485	4,286
Long term debt		2,128	42,889	94,658
Deferred revenue		5,095	5,976	3,515
Other non-current liabilities	12	2,359	2,978	3,727
Deferred tax liabilities		4,487	5,146	8,226
Total non-current liabilities		20,774	61,905	122,012
TOTAL LIABILITIES		232,450	257,739	297,675
Shareholders equity:				
Share capital (ordinary shares $0.16 (10 pence) par value, authorized 50,000,000 shares; issued: 44,603,519, 44,443,726 and 43,743,953 shares, respectively)		6,981	6,955	6,848
Share premium		214,609	211,430	206,968
Retained earnings		50,676	46,589	28,676
Other components of equity		(33,737)	(118)	3,852
Total shareholders equity		238,529	264,856	246,344
TOTAL LIABILITIES AND EQUITY		$ **470,979**	$ **522,595**	$ **544,019**

See accompanying notes.

WNS (HOLDINGS) LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, amounts in thousands, except share and per share data)

		Three months ended September 30,		Six months ended September 30,	
	Notes	**2011**	**2010**	**2011**	**2010**
Revenue	13	$ 117,898	$ 154,159	$ 243,561	$ 304,123
Cost of revenue	13,14	85,231	120,396	180,641	243,136
Gross profit		32,667	33,763	62,920	60,987
Operating expenses:					
Selling and marketing expenses	14	6,988	6,385	13,617	11,440
General and administrative expenses	14	13,118	12,985	25,867	27,092
Foreign exchange gains, net		(1,838)	(1,632)	(3,163)	(4,666)
Amortization of intangible assets		7,548	7,922	15,388	15,902
Operating profit		6,851	8,103	11,211	11,219
Other expenses (income), net		88	(166)	(116)	(341)
Finance expense		931	1,542	2,107	9,086
Profit before income taxes		5,832	6,727	9,220	2,474
Provision for income taxes	16	2,404	742	5,133	2,324
Profit		$ 3,428	$ 5,985	$ 4,087	$ 150
Earnings per share of ordinary share	17				
Basic		$ 0.08	$ 0.14	$ 0.09	$ 0.00
Diluted		$ 0.08	$ 0.13	$ 0.09	$ 0.00

See accompanying notes.

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WNS (HOLDINGS) LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, amounts in thousands)

		Three months ended September 30,		Six months ended September 30,	
	Notes	**2011**	**2010**	**2011**	**2010**
Profit		$ 3,428	$ 5,985	$ 4,087	$ 150
Other comprehensive income (loss), net of taxes	16				
Pension adjustment		146	69	73	82
Changes in fair value of cash flow hedges					
Current year gain (loss)		(4,188)	132	(2,544)	(3,304)
Reclassification to profit (loss)		(1,293)	(3,379)	(3,698)	(2,449)
Foreign currency translation		(27,150)	9,469	(27,450)	4,557
Total other comprehensive income (loss), net of taxes		$ (32,485)	$ 6,291	$ (33,619)	$ (1,114)
Total comprehensive income (loss)		$ (29,057)	$ 12,276	$ (29,532)	$ (964)

See accompanying notes.

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WNS (HOLDINGS) LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited, amounts in thousands, expect per share data)

	Share capital				Other components of equity			
	Number	Par value	Share premium	Retained earnings	Foreign currency translation reserve	Cash flow hedging reserve	Pension adjustments	Total shareholders equity
Balance as at April 1, 2011	44,443,726	$ 6,955	$ 211,430	$ 46,589	$ (4,273)	$ 3,459	$ 696	$ 264,856
Shares issued for exercised options and restricted share units (RSUs)	159,793	26	73					99
Share-based compensation			2,527					2,527
Excess tax benefits from exercise of share-based options and RSUs			579					579
Profit				4,087				4,087
Other comprehensive income (loss), net of taxes					(27,450)	(6,242)	73	(33,619)
Balance as at September 30, 2011	44,603,519	$ 6,981	$ 214,609	$ 50,676	$ (31,723)	$ (2,783)	$ 769	$ 238,529

	Share capital				Other components of equity			
	Number	Par value	Share premium	Retained earnings	Foreign currency translation reserve	Cash flow hedging reserve	Pension adjustments	Total shareholders equity
Balance as at April 1, 2010	43,743,953	$ 6,848	$ 206,968	$ 28,676	$ (11,578)	$ 15,430	$	$ 246,344
Shares issued for exercised options and restricted share units (RSUs)	586,006	89	625					714
Share-based compensation			638					638

Excess tax benefits from exercise of share-based options and RSUs			313					313
Profit				150				150
Other comprehensive income (loss), net of taxes					4,557	(5,753)	82	(1,114)
Balance as at September 30, 2010	44,329,959	$ 6,937	$ 208,544	$ 28,826	$ (7,021)	$ 9,677	$ 82	$ 247,045

See accompanying notes.

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WNS (HOLDINGS) LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Six months ended September 30,	
	2011	**2010**
Cash flows from operating activities		
Cash generated from operations	$ 32,261	$ 18,096
Interest paid	(2,757)	(5,152)
Interest received	27	82
Income tax paid	(5,467)	(4,045)
Net cash provided by operating activities	24,064	8,981
Cash flows from investing activities		
Earn-out payment		(494)
Purchase of property and equipment	(12,962)	(6,779)
Proceeds from sale of property and equipment, net	141	158
Marketable securities and deposits sold, net	11	34
Net cash used in investing activities	(12,810)	(7,081)
Cash flows from financing activities		
Proceeds from exercise of stock options	99	714
Excess tax benefits from share based compensation	579	313
Proceeds from long term debt		64,895
Repayment of long term debt	(20,000)	(87,750)
Payment of debt issuance cost	(53)	(890)
Proceeds from short term borrowings, net	4,614	10,631
Net cash used in financing activities	(14,761)	(12,087)
Exchange difference on cash and cash equivalents	(7,449)	2,524
Net change in cash and cash equivalents	(10,956)	(7,663)
Cash and cash equivalents at the beginning of period	27,090	32,311
Cash and cash equivalents at the end of period	**$ 16,134**	**$ 24,648**

See accompanying notes.

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WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)

1. Company overview

WNS (Holdings) Limited (WNS Holdings), along with its subsidiaries (collectively, the Company), is a global business process outsourcing (BPO) company with client service offices in Australia, London (UK), New York (US), Singapore and delivery centers in Costa Rica, India, the Philippines, Romania, Sri Lanka, and the UK. The Company s clients are primarily in the travel, banking, financial services, insurance, healthcare and utilities, retail and consumer product industries.

WNS Holdings is incorporated in Jersey, Channel Islands and maintains a registered office in Jersey at Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on October 18, 2011.

2. Summary of significant accounting policies

a. Basis of preparation

These condensed interim consolidated financial statements are covered by International Financial Reporting Standards (IFRS) 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), as they are part of the period covered by the Company s first IFRS financial statements for the fiscal year ending March 31, 2012 and are prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* . They do not include all of the information required in annual financial statements in accordance with IFRS.

The condensed interim consolidated statement of financial position corresponds to the classification provisions contained in IAS 1 (revised), *Presentation of Financial Statements* . For clarity, various items are aggregated in the statements of income and statements of financial position. These items are disaggregated separately in the Notes, where applicable.

The Company has adopted IFRS and the adoption was carried out in accordance with IFRS 1. The transition was carried out from accounting principles generally accepted in the United States of America (US GAAP) which is considered as the Previous GAAP. An explanation of the effect of the transition from Previous GAAP to IFRS on the Company s equity and profit and comprehensive income is provided in note 2.w.

Accounting policies have been applied consistently to all periods presented in the consolidated financial statements including the preparation of the IFRS opening statement of financial position as at April 1, 2010 (Transition Date) for the purpose of the transition to IFRS and as required by IFRS 1.

b. Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost convention and on an accrual basis, except for the following material items that have been measured at fair value as required by relevant IFRS:-

a. Derivative financial instruments; and

b. Share based payment transactions.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)

c. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the condensed interim consolidated financial statements is included in the following notes:

i. Revenue recognition:

The Company has, in limited instances, minimum commitment arrangements, wherein the service contracts provide for a minimum revenue commitment on a cumulative basis over multiple years, stated in terms of annual minimum amounts. However, when the shortfall in a particular year can be offset with revenue received in excess of minimum commitments in subsequent years, the Company recognizes deferred revenue for the shortfall which has been invoiced and received. To the extent the Company has sufficient experience to conclude that the shortfall will not be satisfied by excess revenue in a subsequent period, the deferred revenue will be recognized as revenue in that period.

Key factors that are used to determine whether the Company has sufficient experience include:

- the historical volume of business done with a client as compared with initial projections of volume as agreed to by the client and the Company;
- the length of time for which the Company has such historical experience;
- future volume expected based on projections received from the client; and
- the Company s internal expectations of the ongoing volume with the client.

Otherwise the deferred revenue will remain until such time the Company concludes that it will not receive revenue in excess of the minimum commitment.

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For certain agreements, the Company has retroactive discounts related to meeting agreed volumes. In such situations, the Company records revenue at the discounted rate, although the Company initially bill at the higher rate, unless the Company can determine that the agreed volumes will not be met, based on the factors discussed above.

The Company provides automobile claims handling services, wherein the Company enters into contracts with its clients to process all their claims over the contract period, where the fees are determined either on a per claim basis or is a fixed payment for the contract period. Where the contracts are on a per claim basis, the Company invoices the client at the inception of the claim process. The Company estimates the processing period for the claims and recognizes revenue over the estimated processing period. This processing period generally ranges between one to two months. The processing time may be greater for new clients and the estimated service period is adjusted accordingly. The processing period is estimated based on historical experience and other relevant factors, if any.

ii. Allowance for doubtful accounts:

The allowance for doubtful accounts is evaluated on a regular basis and adjusted based upon management s best estimate of probable losses inherent in accounts receivable. In estimating probable losses, the Company reviews accounts that are past due, non-performing or in bankruptcy. The Company determines an estimated loss for specific accounts and estimates an additional amount for the remainder of receivables based on historical trends and other factors. Adverse economic conditions or other factors that might cause deterioration of the financial health of customers could change the timing and levels of payments received and necessitate a change in estimated losses.

iii. Current income taxes:

The major tax jurisdictions for the Company are India, United Kingdom and the United States of America, though the Company also files tax returns in other foreign jurisdictions. Significant judgments are involved in determining the provision for income taxes including judgment on whether tax positions are probable of being sustained in tax assessments. A tax assessment can involve complex issues, which can only be resolved over extended time periods. The recognition of taxes that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

iv. Deferred income taxes:

The assessment of the probability of future taxable profit in which deferred tax assets can be utilized is based on the Company s latest approved budget forecast, which is adjusted for significant non-taxable profit and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable profit indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

v. Impairment:

An impairment loss is recognized for the amount by which an asset s or cash-generating unit s carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company s assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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vi. Valuation of derivative financial instrument:

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm s length transaction at the reporting date.

vii. Accounting for defined benefit plans:

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include expected return on plan assets, discount rate assumptions and rate of future compensation increases. To estimate these factors, actuarial consultants also use estimates such as withdrawal, turnover, and mortality rates which require significant judgment. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

viii. Share-based compensation:

The share based compensation expense is determined based on the Company s estimate of equity instruments that will eventually vest.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)

d. Basis of consolidation

The Company consolidates entities over which it owns or controls. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. Subsidiaries are consolidated from the date control commences until the date control ceases.

i. Business Combinations

Business combinations consummated subsequent to the Transition Date are accounted for using the acquisition method under the provisions of IFRS 3 (Revised), *Business Combinations"*.

The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable tangible and intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. These valuations are conducted by independent valuation experts.

Transaction costs that the Company incurs in connection with a business combination such as finders fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

ii. Transactions with noncontrolling interest

The joint venture between the Company and Paxys Inc. Philippines (Paxys) in the Philippines is majority owned by the Company (65%) and the balance by Paxys. Pursuant to the joint venture agreement, the Company has a call option to acquire from Paxys the remaining shares owned by Paxys and Paxys has a put option to sell all of its shareholding in the joint venture to the Company, upon the occurrence of certain conditions, as set forth in the joint venture agreement, or after August 6, 2012.

In accordance with IAS 32, *Financial Instruments: Presentation* , the Company has derecognized noncontrolling interest since the Company had the risk and rewards for the ownership of the joint venture. However, with the existence of the put option, the Company has a contractual obligation to deliver cash and hence the put option has been classified as a financial liability. The Company s Board of Directors, in its meeting held in September 2011, has determined that its call option has become exercisable as a result of the non-performance event triggered in the prior quarter on account of the joint venture making six months of continuous losses for the period from January 2011 to June 2011, and approved the exercise of the call option. Accordingly, the Company has shared its intention to exercise the call option with Paxys. As of September 30, 2011, the Company has not yet exercised its call option but has assessed that the event of the Company exercising the call option is highly probable as against Paxys exercising their put option and since the Company anticipates that there will be an outflow of cash in connection with the exercise of the call option in the near future, the liability is re-measured at the fair value of the call option as at September 30, 2011.

iii. Transactions eliminated on consolidation

All intra-company balances, transactions, income and expenses including unrealized income or expenses are eliminated in full on consolidation.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)

e. Functional and presentation currency

The condensed interim consolidated financial statements of each of the Company s subsidiaries are measured using the currency of the primary economic environment in which these entities operate (i.e. the functional currency). The condensed interim consolidated financial statements are presented in US dollars (USD) which is the presentation currency of the Company and has been rounded off to the nearest thousands.

f. Foreign currency transactions and translation

i. Transactions in foreign currency

Transactions in foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates prevailing at reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income. Gains/losses relating to translation or settlement of trading activities are disclosed under foreign exchange gains/losses and translation or settlements of financing activities are disclosed under finance expenses.

ii. Foreign operations

For the purpose of presenting condensed interim consolidated financial statements, the assets and liabilities of the Company s foreign operations that have local functional currency are translated into US dollars using exchange rates prevailing at the reporting date. Income and expense are translated at the average exchange rates for the period. Exchange differences arising, if any, are recorded in equity as part of the Company s other comprehensive income. Such exchange differences are recognized in the statement of income in the period in which such foreign operations are disposed. Goodwill and fair value adjustments arising on the acquisition of foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the reporting date.

iii. Others

Foreign currency differences arising on the translation or settlement of a financial liability designated and effective as a hedge of a net investment in foreign operation are recognized directly in equity as part of the Company s other comprehensive income. The amount recognized in equity is transferred to the statement of income, as an adjustment to the profit or loss upon disposal of the related foreign operation.

g. Financial instruments initial recognition and subsequent measurement

Financial instruments are classified in the following categories:

Non-derivative financial assets comprising loans and receivables and available-for-sale.

Non-derivative financial liabilities comprising long term and short term borrowings and trade and other payables.

Derivative financial instruments under the category of financial assets or financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income.

The classification of financial instruments depends on the purpose for which those were acquired. Management determines the classification of the Company s financial instruments at initial recognition.

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i. Non-derivative financial assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are measured initially at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest rate method, less any impairment loss or provisions for doubtful accounts. Loans and receivables are represented by trade receivables, net of allowances for impairment, unbilled revenue, cash and cash equivalents and other assets.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. Available-for-sale financial assets are recognized initially at fair value plus transactions costs. Subsequent to initial recognition, these are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of income. These are presented as current assets unless management intends to dispose of the assets after 12 months from the balance sheet date.

ii. Non derivative financial liabilities

All financial liabilities are recognized initially at fair value, except in the case of loans and borrowings which are recognized at fair value net of directly attributable transaction costs. The Company s financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

Trade and other payables maturing later than 12 months after the balance sheet date are presented as non-current liabilities.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

iii. Derivative financial instruments and hedge accounting

The Company is exposed to foreign currency fluctuations on foreign currency assets, liabilities, net investment in foreign operations and forecasted cash flows denominated in foreign currency. The Company limits the effect of foreign exchange rate fluctuation by following established risk management policies including the use of derivatives. The Company enters into derivative financial instruments where the counter party is a bank. The Company holds derivative financial instruments such as foreign exchange forward and option contracts and interest rate swaps to hedge certain foreign currency and interest rate exposures.

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Cash flow hedges

The Company recognizes derivative instruments as either assets or liabilities in the statement of financial position at fair value. Derivative instruments qualify for hedge accounting when the instrument is designated as a hedge; the hedged item is specifically identifiable and exposes the Company to risk; and it is expected that a change in fair value of the derivative instrument and an opposite change in the fair value of the hedged item will have a high degree of correlation.

For derivative instruments where hedge accounting is applied, the Company records the effective portion of derivative instruments that are designated as cash flow hedges in other comprehensive income (loss) in the statement comprehensive income, which is reclassified into earnings in the same period during which the hedged item affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion) or hedge components excluded from the assessment of effectiveness, and changes in fair value of other derivative instruments not designated as qualifying hedges is recorded as gains / losses, net in the statement of income. Gains/losses on cash flow hedges on intercompany forecasted revenue transactions are recorded in foreign exchange gains/losses and cash flow hedge on interest rate swaps are recorded in finance expense. Cash flows from the derivative instruments are classified within cash flows from operating activities in the statement of cash flows.

iv. Offsetting of financial instruments

Financial assets and financial liabilities are offset against each other and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

v. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies.

vi. Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

a) Loans and receivables

Impairment loss in respect of loans and receivables measured at amortized cost are calculated as the difference between their carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in the statement of income.

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b) Available-for-sale financial assets

Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. The cumulative loss that was recognized in the equity is transferred to the statement of income upon impairment.

h. Equity and share capital

i. Share capital and share premium

The Company has only one class of equity shares. The authorized share capital of the Company is 50,000,000 equity shares, par value $0.16 (10 pence) per share. Par value of the equity share is recorded as the share capital and the amount received in excess of par value is classified as share premium. The credit corresponding to the share-based compensation and excess tax benefit related to the exercise of share options is recorded in share premium.

ii. Retained earnings

Retained earnings comprise the Company s undistributed earnings after taxes.

iii. Other components of equity

Other components of equity consist of the following:

Cash flow hedging reserve

Changes in fair value of derivative hedging instruments designated and effective as a cash flow hedge are recognized net of taxes.

Foreign currency translation reserve

Foreign currency translation consists of the exchange difference arising from the translation of financial statement of foreign subsidiaries.

Pension adjustments

This reserve represents cumulative actuarial gain and losses recognized on defined benefits plans.

i. Bank deposits and marketable securities

Bank deposits consist of term deposits with an original maturity of more than three months. The Company s marketable securities represent highly liquid investments and are acquired principally for the purpose of generating a profit from short-term fluctuation in prices. All purchases and sales of such investments are recognized on the trade date. Investments are initially measured at cost, which is the fair value of the consideration paid, including transaction costs. All marketable securities are classified and accounted as trading investments and accordingly, reported at fair value, with changes in fair value recognized in the consolidated statement of income. Interest and dividend income is recognized when earned.

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j. Funds held for clients

Some of the Company s agreements in the Auto Claims handling services allow the Company to temporarily hold funds on behalf of the client. The funds are segregated from the Company s funds and there is usually a short period of time between when the Company receives these funds from the client and when the payments are made on their behalf.

k. Property and equipment

Property and equipment are stated at historical cost, except for certain items of furniture, fixture and office equipment and leasehold improvements for which fair value as of the Transition Date is taken as its deemed cost (see note 2 v. a) ii.), and depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset description	Asset life (in years)
Buildings	20
Computers and software	3-4
Furniture, fixtures and office equipment	2-5
Vehicles	3
Leasehold improvements	Lesser of estimated useful life or lease term

Assets acquired under finance leases are capitalized as assets by the Company at the lower of the fair value of the leased property or the present value of the related lease payments or where applicable, the estimated fair value of such assets. Assets under finance leases and leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the assets. Where the fair valuation of an asset on the Transition Date is taken as the deemed cost, the depreciation is calculated over its estimated remaining useful life.

Advances paid towards the acquisition of property and equipment and the cost of property and equipment not put to use before the balance sheet date are disclosed under the caption capital work-in-progress.

Property and equipment are reviewed for impairment, if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the property and equipment to the estimated future undiscounted net cash flows expected to be generated by the property and equipment. If estimated future undiscounted cash flows are less than the carrying amount of the property and equipment, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the property and equipment to its carrying value, with any shortfall from fair value recognized as an expense in the current period. The fair value is determined based on valuation techniques such as discounted cash flows or comparison to fair values of similar assets.

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l. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination for the purpose of impairment testing. Goodwill is tested, at the cash-generating unit (or group of cash generating units) level, for impairment annually or if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses. Impairment loss on goodwill is not reversed. See further, discussion on impairment testing under Impairment of intangible assets and goodwill below.

m. Intangible assets

Intangible assets are recognized only when it is probable that the expected future economic benefits attributable to the assets will accrue to the Company and the cost can be reliably measured. Intangible assets acquired in a business combination are recorded at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment, if indicators of impairment arise. See further, discussion on impairment testing under Impairment of intangible assets and goodwill below.

The Company s definite lived intangible assets are amortized over the estimated useful life of the assets:

Asset description	**Weighted average amortization period (in months)**
Customer contracts	100
Customer relationship	90
Intellectual property rights	36
Leasehold benefits	48
Covenant not-to-compete	48

n. Impairment of intangible assets and goodwill

Goodwill is not subject to amortization and tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the cash generating unit level which is the lowest level for which there are separately identifiable cash flows. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units (or group of cash generating units) and then, to reduce the carrying amount of the other assets in the cash generating unit (or group of cash generating units) on a pro rata basis. Intangible assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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o. Employee benefits

i. Defined contribution plans

US Savings Plan

Eligible employees of the Company in the United States participate in a savings plan (the Plan) under Section 401(k) of the United States Internal Revenue Code (the Code). The Plan allows for employees to defer a portion of their annual earnings on a pre-tax basis through voluntary contributions to the Plan. The Plan provides that the Company can make optional contributions up to the maximum allowable limit under the Code.

UK Pension Scheme

Eligible employees in the UK contribute to a defined contribution pension scheme operated in the UK. The assets of the scheme are held separately in an independently administered fund. The pension expense represents contributions payable to the fund maintained by the Company.

Provident Fund

Eligible employees of the Company in India, the Philippines, Sri Lanka and United Kingdom participate in a defined contribution fund in accordance with the regulatory requirements in the respective jurisdictions. Both the employee and the Company contribute an equal amount to the fund which is equal to a specified percentage of the employee s salary.

The Company has no further obligation under defined contribution plans beyond the contributions made under these plans. Contributions are charged to income in the year in which they accrue and are included in the consolidated statement of income.

ii. Defined benefit plan

Employees in India, the Philippines and Sri Lanka are entitled to a defined benefit retirement plan covering eligible employees of the Company. The plan provides for a lump-sum payment to eligible employees, at retirement, death, and incapacitation or on termination of employment, of an amount based on the respective employees salary and tenure of employment (subject to a maximum of approximately $20 per employee in India). In India contributions are made to funds administered and managed by the Life Insurance Corporation of India and AVIVA Life Insurance Company Private Limited (together, the Fund Administrators) to fund the gratuity liability of an Indian subsidiary. Under this scheme, the obligation to pay gratuity remains with the Company, although the Fund Administrators administer the scheme. The Company s Sri Lanka subsidiary, Philippines subsidiary and one Indian subsidiary have unfunded gratuity obligations.

Gratuity liabilities are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method. The Company recognizes the net obligation of a defined benefit plan in its balance sheet as an asset or liability, respectively, in accordance with IAS 19, *Employee Benefits* . The discount rate is based on the Government securities yield. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in other comprehensive income in the statement of comprehensive income in the period in which they arise.

iii. Compensated absence

The Company s liability for compensated absences is determined on an accrual basis for the entire unused vacation balance standing to the credit of each employee as at year-end and were charged to income in the year in which they accrue.

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p. Share based payment

The Company accounts for share-based compensation expense relating to share-based payments using a fair-value method in accordance with IFRS 2, *Share-based Payments"*. Grants issued by the Company vest in graded manner. Under the fair value method, the estimated fair value of awards is charged to income over the requisite service period, which is generally the vesting period of the award, for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company includes a forfeiture estimate in the amount of compensation expense being recognized based on the Company s estimate of equity instruments that will eventually vest.

q. Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

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r. Revenue recognition

The Company derives revenue from BPO services comprised of back office administration, data management, contact center management and auto claims handling services.

Revenue is recognized to the extent it is probable that the economic benefit will flow to the Company, the amount of revenue can be measured reliably, collection is probable, the cost incurred or to be incurred can be measured reliably. Revenue from rendering services is recognized on an accrual basis when services are performed.

Revenue earned by back office administration, data management and contact center management services

Depending on the terms of the arrangement, revenue from back office administration, data management and contact center management is recognized based on three pricing models per full-time-equivalent; per transaction; or cost-plus as follows:

a) per full-time-equivalent arrangements typically involve billings based on the number of full-time employees (or equivalent) deployed on the execution of the business process outsourced;

b) per transaction arrangements typically involve billings based on the number of transactions processed (such as the number of e-mail responses, or airline coupons or insurance claims processed); and

c) cost-plus arrangements typically involve billing the contractually agreed direct and indirect costs and a fee based on the number of employees deployed under the arrangement.

Amounts billed or payments received, where revenue recognition criteria have not been met, are recorded as deferred revenue and are recognized as revenue when all the recognition criteria have been met. However, the costs related to the performance of BPO services unrelated to transition services (see discussion below) are recognized in the period in which the services are rendered. An upfront payment received towards future services is recognized ratably over the period when such services are provided.

The Company has certain minimum commitment arrangements that provide for a minimum revenue commitment on an annual basis or a cumulative basis over multiple years, stated in terms of annual minimum amounts. Where a minimum commitment is specific to an annual period, any revenue shortfall is invoiced and recognized at the end of this period. When the shortfall in a particular year can be offset with revenue received in excess of minimum commitments in a subsequent year, the Company recognizes deferred revenue for the shortfall which has been invoiced and received. To the extent the Company has sufficient experience to conclude that the shortfall will not be satisfied by excess revenue in a subsequent period, the deferred revenue will be recorded as revenue in that period. In order to determine whether the Company has sufficient experience, the Company considers several factors which include (i) the historical volume of business done with a client as compared with initial projections of volume as agreed to by the client and the Company, (ii) the length of time for which the Company has such historical experience, (iii) future volume expected based on projections received from the client, and (iv) the Company s internal expectations of ongoing volume with the client. Otherwise, the deferred revenue will remain until such time when the Company can conclude that it will not receive revenue in excess of the minimum commitment.

For certain BPO customers, the Company performs transition activities at the outset of entering into a new contract. The Company has determined these transition activities do not meet the criteria using the guidance in IAS 18 *Revenue* (IAS 18), to be accounted for as a separate unit of accounting with stand-alone value separate

from the ongoing BPO contract. Accordingly, transition revenue and costs are subsequently recognized ratably over the period in which the BPO services are performed. Further, the deferral of costs is limited to the amount of the deferred revenue. Any costs in excess of the deferred transition revenue are recognized in the period incurred.

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Revenue earned by auto claims handling services

Auto claims handling services include claims handling and administration (Claims Handling), car hire and arranging for repairs with repair centers across the United Kingdom and the related payment processing for such repairs (Accident Management).With respect to Claims Handling, the Company receives either a per-claim fee or a fixed fee. Revenue for per claim fee is recognized over the estimated processing period of the claim, which currently ranges from one to two months and revenue for fixed fee is recognized on a straight line basis over the period of the contract. In certain cases, the fee is contingent upon the successful recovery of a claim on behalf of the customer. In these circumstances, the revenue is deferred until the contingency is resolved. Revenue in respect of car hire is recognized over the car hire term.

In order to provide Accident Management services, the Company arranges for the repair through a network of repair centers. The repair costs are invoiced to customers. In determining whether the receipt from the customers related to payments to repair centers should be recognized as revenue, the Company considers the criteria established by IAS 18, Illustrative example (IE) 21 *Determining whether an entity is acting as a principal or as an agent* . When the Company determines that it is the principal in providing Accident Management services, amounts received from customers are recognized and presented as third party revenue and the payments to repair centers are recognized as cost of revenue in the consolidated statement of income. Factors considered in determining whether the Company is the principal in the transaction include whether

a) the Company has the primary responsibility of providing the services,

b) the Company negotiates labor rates with repair centers,

c) the Company is responsible for timely and satisfactory completion of repairs, and

d) the Company bears the risk that the customer may not pay for the services provided (credit risk).

If there are circumstances where the above criteria are not met and therefore the Company is not the principal in providing Accident Management services, amounts received from customers are recognized and presented net of payments to repair centers in the consolidated statement of income. Revenue from Accident Management services is recorded net of the repairer referral fees passed on to customers.

s. Leases

The Company leases most of its delivery centers and office facilities under operating lease agreements that are renewable on a periodic basis at the option of the lessor and the lessee. The lease agreements contain rent free periods and rent escalation clauses. Rental expenses for operating leases with step rents are recognized on a straight-line basis over the lease term. When a lease agreement undergoes a substantial modification of the existing terms, it would be accounted as a new lease agreement with the resultant deferred rent liability credited to the statement of income.

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. When acquired, such assets are capitalized at fair value or present value of the minimum lease payments at the inception of the lease, whichever is lower.

t. Income taxes

Income tax comprises current and deferred tax. Income tax expense is recognized in statements of income except to the extent it relates to items directly recognized in equity, in which case it is recognized in equity.

i. Current income tax

Current income tax for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the taxable profit for the period. The tax rates and tax laws used to compute the amount are those that are enacted by the reporting date and applicable for the period. The Company offsets current tax assets and current tax liabilities, where it has a legally enforceable right to set off the recognized amounts and where it intends either to settle on a net basis, or to realize the asset and liability simultaneously.

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ii. Deferred income tax

Deferred income tax is recognized using the balance sheet approach. Deferred income tax assets and liabilities are recognized for all deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amount in financial statements, except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profits or loss at the time of transaction.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax asset in respect of carry forward of unused tax credits and unused tax losses are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

u. Earnings per share

Basic earnings per share is computed using the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by considering the impact of the potential issuance of ordinary shares, using the treasury stock method, on the weighted average number of shares outstanding during the period, using the treasury share method for options, except where the results would be anti-dilutive.

v. Transition to IFRS

The Company s consolidated financial statements for the year ending March 31, 2012 will be the first annual consolidated financial statements prepared in compliance with IFRS. Accordingly all interim financial statements during the year ending March 31, 2012 would be prepared in accordance with principles of IFRS.

The adoption of IFRS was carried out in accordance with IFRS 1, using April 1, 2010 as the Transition Date. IFRS 1 requires that all IFRS standards and interpretations that are effective for the first IFRS consolidated financial statements for the year ending March 31, 2012, be applied consistently and retrospectively for all fiscal years presented.

Until the adoption of IFRS, the financial statements included in the Company s annual reports on Form 20-F and reports on Form 6-K were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which is considered as the Previous GAAP.

All applicable IFRS have been applied consistently and retrospectively wherever required. The resulting difference between the carrying amounts of the assets and liabilities in the consolidated financial statements under IFRS and Previous GAAP as of the Transition Date are recognized directly in equity at the Transition Date.

In preparing these consolidated financial statements, the Company has availed itself of certain exemptions and complied with exceptions in accordance with IFRS 1 as explained below:

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a) Exemptions from retrospective application

The following are the optional exemptions available and elected by the Company:

i. **Business combinations exemption** The Company has applied the exemption as provided in IFRS 1 on non-application of IFRS 3 (Revised) to business combinations consummated prior to Transition Date, pursuant to which goodwill and other assets acquired under business combinations prior to Transition Date have been stated at the carrying amount as per Previous GAAP.

ii. **Fair value as deemed cost exemption** The Company has applied the exemption as provided in IFRS 1 and measured specific items of property and equipment, on a selective basis within certain classes of assets, at its fair value at the date of transition. The Company has chosen to fair value items of following classes of assets namely, furniture and fixtures, equipment and fittings, generators and leasehold improvements, as at the Transition Date. Consequent to this, the fair value as of Transition Date is taken as its deemed cost for all those assets within these classes of assets where the fair value was lower than the carrying value. Such impact has been taken to retained earnings. For all other assets within these classes of assets where the fair value was greater than the carrying value, those assets have not been restated and their Previous GAAP amount has been considered as cost under IFRS. For all other asset classes namely building, computers and software and vehicles, their Previous GAAP amount have been considered as cost under IFRS.

iii. **Employee benefits exemption** The Company has applied the exemption as provided in IFRS 1 relating to application of the corridor approach and to recognize all cumulative actuarial gains and losses up to the date of transition to retained earnings. Any actuarial gains and losses after Transition Date would be recognized in other comprehensive income.

iv. **Fair value measurement of financial assets or liabilities at initial recognition** The Company has not applied the amendment offered by the revision of IAS 39, *Financial Instruments: Recognition and Measurement* , on the initial recognition of the financial assets and financial liabilities that are not traded in an active market.

b) Exceptions from full retrospective application

The following are the exceptions from full retrospective application:

i. **De-recognition of financial assets and liabilities exception** The Company has chosen not to apply the IAS 39 de-recognition criteria to an earlier date. No arrangements were identified that had to be assessed under this exception.

ii. **Hedge accounting exception** The Company has followed hedge accounting under Previous GAAP which is aligned to IFRS. Accordingly, this exception of not reflecting in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under IAS 39, is not applicable to the Company.

iii. **Estimates exception** Upon an assessment of the estimates made under Previous GAAP, the Company has concluded that there was no necessity to revise such estimates under IFRS, except where estimates were required by IFRS and not required by Previous GAAP.

iv. **Noncontrolling Interest** The Company does not have noncontrolling interests under IFRS. Hence this exception is not applicable to the Company.

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w. Reconciliations

As required under IFRS 1, the Company has prepared the reconciliations of equity and profit and comprehensive income in accordance with IFRS 1 to provide a quantification of the effect of the transition to IFRS from previous GAAP;

equity as at April 1, 2010;

equity as at September 30, 2010;

equity as at March 31, 2011;

profit and comprehensive income for the three months ended September 30, 2010;

profit and comprehensive income for the six months ended September 30, 2010; and

profit and comprehensive income for the year ended March 31, 2011.

There is no material changes in cash flows statements, accordingly the reconciliation is not been presented.

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Reconciliation of equity as at April 1, 2010

	Notes	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS
ASSETS				
Current assets:				
Cash and cash equivalents		$ 32,311	$	$ 32,311
Bank deposits and marketable securities		45		45
Trade receivables		44,821		44,821
Unbilled revenue		40,892		40,892
Funds held for clients		11,372		11,372
Current tax assets		5,602		5,602
Derivative assets		22,808		22,808
Prepayments and other current assets	1	17,127	(433)	16,694
Total current assets		174,978	(433)	174,545
Goodwill		90,662		90,662
Intangible assets		188,079		188,079
Property and equipment	2	51,700	(3,153)	48,547
Derivative assets		8,375		8,375
Deferred tax assets	3	27,143	(1,943)	25,200
Other non-current assets	1	8,953	(342)	8,611
TOTAL ASSETS		**$ 549,890**	**$ (5,871)**	**$ 544,019**
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables		$ 27,900	$	$ 27,900
Provisions	4	42,919	471	43,390
Derivative liabilities		17,597		17,597
Pension and other employee obligations	5	30,977	46	31,023
Current portion of long term debt	1	40,000	(433)	39,567
Deferred revenue		4,891		4,891
Income taxes payable		2,550		2,550
Other liabilities	6	7,069	1,676	8,745
Total current liabilities		173,903	1,760	175,663
Derivative liabilities		7,600		7,600
Pension and other employee obligations	5	3,921	365	4,286
Long term debt	1	95,000	(342)	94,658

Deferred revenue		3,515		3,515
Other non-current liabilities		3,727		3,727
Deferred tax liabilities	3	8,343	(117)	8,226
Redeemable noncontrolling interest	6	278	(278)	
TOTAL LIABILITIES		**296,287**	**1,388**	**297,675**
Shareholders equity:				
Share capital		6,848		6,848
Share premium	7,8	203,531	3,437	206,968
Retained earnings	2,3,4,5,6,7,8,9	50,797	(22,121)	28,676
Other components of equity	3,5,6,9	(7,573)	11,425	3,852
Total shareholders equity		253,603	(7,259)	246,344
TOTAL LIABILITIES AND EQUITY		**$ 549,890**	**$ (5,871)**	**$ 544,019**

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WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts in thousands, except share and per share data)

Notes:

1 Under IFRS, debt is a financial liability recognized initially at fair value adjusted for transaction costs that are directly attributable to the issue of the financial liability and measured subsequently at amortized cost. Accordingly, debt issue costs have been netted off against long term debt. Under Previous GAAP, such debt issue costs were recorded as deferred charges. Due to the netting off of debt issue cost with the carrying amount of long term debt, prepayment and other current assets and other non-current assets are lower by $433 and $342 and current portion and non-current portion of the long term debt are lower by $433 and $342, respectively.

2 The Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific items of property and equipment, on a selective basis within certain classes of assets, at their fair values at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those assets within these classes of assets where the fair value is lower than the carrying value. For all other assets within these classes of assets where the fair value is greater than the carrying value, those assets have been carried at their Previous GAAP amounts. As a result, property and equipment under IFRS is lower by $3,153, with a corresponding impact to retained earnings.

3 Certain deferred tax credits (net) amounting to $1,826 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) accelerated amortization of share-based compensation expense in the initial years following the grant of share options amounting to a credit of $1,408;
b) time value of purchased options amounting to a credit of $720;
c) application of substantially enacted tax rates amounting to a credit of $203; and
d) deferred tax debit amounting to $505 on account of election of IFRS 1 exemption on the Transition Date relating to selective measurement of items of property and equipment at their fair value.

The above adjustments have an impact on retained earnings and other components of equity.

4 Under IFRS, any contingent consideration payable on the date of acquisition shall be recognized at the fair value on the acquisition date and shall be recognized as a liability. The transition guidance on IFRS 3 requires contingent consideration balances arising from previous business combinations to be accounted as cost of acquisition and adjusted to goodwill, which do not apply to a first time adopter of IFRS. However IFRS 1 states that only intangible assets and its related deferred tax recognized under Previous GAAP that do not meet the recognition criteria under IFRS be adjusted against goodwill. Under IFRS, the Company has recognized $471 of contingent consideration as liability and the corresponding impact to retained earnings. Under Previous GAAP, such earn out consideration was recorded as an addition to goodwill.

5 Under employee benefits in India, the defined benefit plan provides for a lump-sum payment to eligible employees at retirement, death and incapacitation or on termination of employment, of an amount based on the respective employees salary and tenure of employment, subject to a maximum of approximately $8 per employee. In March 2010, the Indian Union Cabinet gave its consent for enhancing the gratuity limit at the time of retirement from $8 to $22 per employee in India. The amendment was subsequently passed in the Parliament on May 2010. As a result of the law being substantially enacted on the Transition Date, the carrying value of employee benefits increased by $255 with a corresponding impact to retained earnings. The impact of the above change was accounted in the first quarter of fiscal 2011 under Previous GAAP.

Under IFRS, the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result, the carrying value of employee benefits increased by $156 with a corresponding impact to retained earnings.

The Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses up to the Transition Date. As a result, the Company has recognized $454 in retained earnings under IFRS with a corresponding debit to other comprehensive income.

WNS (HOLDINGS) LIMITED
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6 Under IFRS, the noncontrolling interest is derecognized, since the Company believes that the risk and reward of ownership of the joint venture always vested with the Company.

Under IFRS, the put option in the joint venture agreement has been classified as a financial liability and valued based on the probability weighted assessment of possible outcomes of the various conditions for the put option. Further, the exercise of the put option is not under the control of the Company. Accordingly, under IFRS, a liability has been recorded based on the obligation existing as at the Transition Date based on the present value of the put option amounting to $1,676.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as the net settlement of the put option and call option is not possible and hence was not classified as a derivative. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period.

As a result, under IFRS, the redemption value of redeemable noncontrolling interest of $278 has been reclassed to other liabilities. Further, this liability was increased by $1,398 to record the existing obligation as at the Transition Date with a corresponding debit to retained earnings of $1,354 and a debit of $44 to other components of equity.

7 The Company grants share options to its employees. These share options vest in a graded manner over the vesting period. Under IFRS, each tranche of vesting is treated as a separate award and the share-based compensation expense relating to that tranche is amortized over the vesting period of the underlying tranche. This results in accelerated amortization of share-based compensation expense in the initial years following the grant of share options.

Under Previous GAAP, an entity was allowed to recognize the share-based compensation expense, relating to share options which vest in a graded manner, on a straight-line basis over the requisite vesting period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date.

Accordingly, the share-based compensation expense recognized under IFRS is higher by $2,150 as at the Transition Date in respect of the unvested awards.

8 Under the Indian tax laws, Fringe Benefit Tax (FBT) was imposed on all stock options exercised on or after April 1, 2007. Under this legislation, on exercise of an option or Restricted Share Unit (RSUs), employers were responsible for a tax equal to the intrinsic value at its vesting date multiplied by the applicable tax rate. The FBT was included as a component of the exercise price while computing the fair value of the grant. In August 2009, the Indian tax laws withdrew the levy of FBT with effect from April 1, 2009. Consequent to this change in legislation, no FBT were recovered for options and RSUs issued to Indian option holders, resulting in a reduction in the exercise price of the options and RSUs. Under Previous GAAP, the charge in FBT was treated as a modification.

Under IFRS, the levy of FBT is accounted as reimbursement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The grant date fair values of options and RSUs computed under Previous GAAP have been recomputed to remove the effect of FBT component included in the exercise price. As a result of the change in accounting treatment under IFRS, share-based compensation expense is higher by $1,287 as on the Transition

Date.

9 Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. Consequently under IFRS, the change in accounting treatment resulted in an increase to other components of equity by $11,015 (net of tax) and a corresponding debit to retained earnings. Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity.

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Reconciliation of equity as at September 30, 2010

	Notes	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS
ASSETS				
Current assets:				
Cash and cash equivalents		$ 24,648	$	$ 24,648
Bank deposits and marketable securities		12		12
Trade receivables		70,720		70,720
Unbilled revenue		32,602		32,602
Funds held for clients		1,865		1,865
Current tax assets		5,343		5,343
Derivative assets		18,352		18,352
Prepayments and other current assets	1	18,004	(594)	17,410
Total current assets		171,546	(594)	170,952
Goodwill	2	92,820	(490)	92,330
Intangible assets		172,380		172,380
Property and equipment	3	48,982	(2,225)	46,757
Derivative assets		3,361		3,361
Deferred tax assets	4	31,650	(2,714)	28,936
Other non-current assets	1	8,760	(337)	8,423
TOTAL ASSETS		**$ 529,499**	**$ (6,360)**	**$ 523,139**
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables		$ 28,901	$	$ 28,901
Provisions		41,880		41,880
Derivative liabilities		14,250		14,250
Pension and other employee obligations	5	26,342	(4)	26,338
Short term line of credit		10,980		10,980
Current portion of long term debt	1	40,000	(764)	39,236
Deferred revenue		6,610		6,610
Income taxes payable		2,540		2,540
Other liabilities	9	5,635	1,696	7,331
Total current liabilities		177,138	928	178,066
Derivative liabilities		3,557		3,557
Pension and other employee obligations	5	4,432	221	4,653
Long term debt	1	72,715	(487)	72,228
Deferred revenue		7,474		7,474
Other non-current liabilities		2,571		2,571

Deferred tax liabilities	4	8,113	(568)	7,545
TOTAL LIABILITIES		276,000	94	276,094
Shareholders equity:				
Share capital		6,937		6,937
Share premium	6,7,10	205,313	3,231	208,544
Retained earnings	1,2,3,4,5,6,7,8,9,10	49,670	(20,844)	28,826
Other components of equity	4,5,8,9	(8,421)	11,159	2,738
Total shareholders equity		253,499	(6,454)	247,045
TOTAL LIABILITIES AND EQUITY		**$ 529,499**	**$ (6,360)**	**$ 523,139**

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WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts in thousands, except share and per share data)

Notes:

1 Under IFRS, debt is a financial liability recognized initially at fair value adjusted for transaction costs that are directly attributable to the issue of the financial liability and measured subsequently at amortized cost. Accordingly, debt issue costs have been netted off against long term debt. Under Previous GAAP, such debt issue costs were recorded as deferred charges. Due to the netting off of debt issue cost with the carrying amount of long term debt, prepayment and other current assets and other non-current assets are lower by $641 and $290 and current portion and non-current portion of the long term debt are lower by $641 and $290 respectively.

Further, under Previous GAAP, in connection with the refinancing of the long term debt, the debt issue cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the same has been netted off against the long term debt. As a result, under IFRS, the long term debt is lower by $320.

Under IFRS, lease deposits have been recorded at fair value, and the resultant difference between the fair value and carrying value is shown as prepaid rent. As a result, under IFRS, prepayment and other current assets have increased by $47 and other non-current assets have reduced by $47.

2 Under IFRS, contingent consideration relating to acquisitions is recognized if it is probable that such consideration would be paid and can be measured reliably. Under Previous GAAP, contingent consideration is recognized after the contingency is resolved and additional consideration becomes payable. As a result, under IFRS, the Company has recognized contingent consideration as additional liability and retained earnings on the Transition Date. Consequently, goodwill under IFRS is lower by $490.

3 The Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific item of property and equipment, on a selective basis within certain classes of assets, at its fair value at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those assets within these classes of assets where the fair value is lower than the carrying value. For all other assets within these classes of assets where the fair value is greater than the carrying value, those assets have been carried at their Previous GAAP amounts. As a result, under IFRS, property and equipment is lower by $2,225, with a corresponding impact to retained earnings.

4 Certain deferred tax credits (net) amounting to $2,146 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) accelerated amortization of share-based compensation expense amounting to a credit of $2,015;

b) time value of purchased options amounting to a credit of $597; and

c) deferred tax debit amounting to $466, due to a difference in accounting treatment on account of selective measurement of items of property and equipment at their fair value.
The above adjustment has an impact on retained earnings and other components of equity.

5 Under IFRS the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result, the carrying value of employee benefits increased by $217 with a corresponding impact to retained earnings.

The Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses up to the Transition Date. As a result, under IFRS, the Company has recognized $645 into retained earnings.

6 The Company grants share options to its employees. These share options vest in a graded manner over the vesting period. Under IFRS, each tranche of vesting is treated as a separate award and the share-based compensation expense relating to that tranche is amortized over the vesting period of the underlying tranche. This results in accelerated amortization of share-based compensation expense in the initial years following the grant of share options.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts in thousands, except share and per share data)

Previous GAAP permits an entity to recognize the share-based compensation expense, relating to share options which vest in a graded manner, on a straight-line basis over the requisite vesting period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. As a result of the change in accounting treatment under IFRS, share premium is higher by $1,545 on account of higher share-based compensation expense.

7 Under the Indian tax laws, FBT was imposed on all stock options exercised on or after April 1, 2007. Under this legislation, on exercise of an option or RSUs, employers were responsible for a tax equal to the intrinsic value at its vesting date multiplied by the applicable tax rate. The FBT was included as a component of the exercise price while computing the fair value of the grant. In August 2009, the Indian tax laws withdrew the levy of FBT with effect from April 1, 2009. Consequent to this change in legislation, no FBT were recovered for options and RSUs issued to Indian option holders, resulting in a reduction in the exercise price of the options and RSUs. Under Previous GAAP, the change in FBT was treated as a modification

Under IFRS, the levy of FBT is accounted as reimbursement under IAS 37. The grant date fair values of options and RSUs computed under the Previous GAAP have been recomputed to remove the effect of FBT component included in the exercise price. As a result of the change in accounting treatment under IFRS, share premium is higher by $1,027 on account of higher share-based compensation expense.

8 Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. Consequently under IFRS, the change in accounting treatment resulted in an increase to other components of equity by $10,494 (net of tax).

9 Under IFRS the redeemable noncontrolling interest has been derecognized, since the Company believes that the risks and rewards of the joint venture always vested with the Company.

Under IFRS, put option has been classified as a financial liability and valued based on the probability weighted assessment of possible outcomes of the various conditions for put option. Further, the exercise of the put option is not under the control of the Company. Accordingly, under IFRS, a liability has been recorded based on the obligation existing as at the Transition Date based on the present value of the put option.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as the net settlement of the put option and call option is not possible and hence was not classified as a derivative. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period. As a result, under IFRS, the share of losses on redeemable noncontrolling interest amounting to $43 recorded in other components of equity has been transferred to retained earnings.

10 Under IFRS, the deferred tax asset on share-based compensation expense is adjusted based on the prevailing share price at each reporting date. Any fluctuation in share price will result in a change in deferred tax. At the time of exercise of options, any excess deferred tax created is recognized as a charge in the statement of income.

Under Previous GAAP, deferred tax asset on share-based compensation expense is calculated at the date of the grant of option. At the time of exercise of option, the shortfall is recorded as a debit to equity to the extent prior

excess tax benefits exist.

As a result of the change in accounting treatment under IFRS, the Company has recognized $659 of tax deficiency in statement of income with a corresponding credit to share premium.

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(Amounts in thousands, except share and per share data)
Reconciliation of equity as at March 31, 2011

	Notes	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS
ASSETS				
Current assets:				
Cash and cash equivalents		$ 27,090	$	$ 27,090
Bank deposits and marketable securities		12		12
Trade receivables		78,586		78,586
Unbilled revenue		30,837		30,837
Funds held for clients		8,799		8,799
Current tax assets		8,502		8,502
Derivative assets		11,182		11,182
Prepayments and other current assets	1	16,679	(232)	16,447
Total current assets		181,687	(232)	181,455
Investments		2		2
Goodwill	2	94,036	(503)	93,533
Intangible assets		156,587		156,587
Property and equipment	3	48,592	(1,414)	47,178
Derivative assets		2,282		2,282
Deferred tax assets	4	36,820	(3,302)	33,518
Other non-current assets	1	8,413	(373)	8,040
TOTAL ASSETS		**$ 528,419**	**$ (5,824)**	**$ 522,595**
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables		$ 43,748	$	$ 43,748
Provisions		32,933		32,933
Derivative liabilities		9,963		9,963
Pension and other employee obligations	5	31,034	(5)	31,029
Short term line of credit		14,593		14,593
Current portion of long term debt	1	50,000	(608)	49,392
Deferred revenue		6,962		6,962
Income taxes payable		3,088		3,088
Other liabilities	9	2,359	1,767	4,126
Total current liabilities		194,680	1,154	195,834
Derivative liabilities		431		431
Pension and other employee obligations	5	4,087	398	4,485
Long term debt	1	43,095	(206)	42,889
Deferred revenue		5,976		5,976

Other non-current liabilities			2,978				2,978
Deferred tax liabilities	4		5,953		(807)		5,146
TOTAL LIABILITIES			257,200		539		257,739
Shareholders equity:							
Share capital			6,955				6,955
Share premium	6,7,10		208,050		3,380		211,430
Retained earnings	2,3,4,5,6,7,8,9,10		60,259		(13,670)		46,589
Other components of equity	4,5,8,9		(4,045)		3,927		(118)
Total shareholders equity			271,219		(6,363)		264,856
TOTAL LIABILITIES AND EQUITY		**$**	**528,419**	**$**	**(5,824)**	**$**	**522,595**

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Notes:

1 Under IFRS, debt is a financial liability recognized initially at fair value adjusted for transaction costs that are directly attributable to the issue of the financial liability and measured subsequently at amortized cost. Accordingly, debt issue costs have been netted off against long term debt. Under Previous GAAP, such debt issue costs were recorded as deferred charges. Due to the netting off of debt issue cost with the carrying amount of long term debt, prepayment and other current assets and other non-current assets are lower by $505 and $90 and current portion and non-current portion of the long term debt are lower by $505 and $90, respectively.

Further, under Previous GAAP, in connection with the refinancing of the long term debt, the debt issue cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the same has been netted off against the long term debt. As a result, under IFRS, the long term debt is lower by $219.

Under IFRS, lease deposits have been recorded at fair value, and the resultant difference between the fair value and carrying value is shown as prepaid rent. As a result, prepayment and other current assets have increased by $273 and other non-current assets have reduced by $283.

2 Under IFRS, contingent consideration relating to acquisitions is recognized if it is probable that such consideration would be paid and can be measured reliably. Under Previous GAAP, contingent consideration is recognized after the contingency is resolved and additional consideration becomes payable. As a result, under IFRS, the Company has recognized contingent consideration as additional liability and retained earnings on the Transition Date. Consequently, goodwill under IFRS is lower by $503.

3 The Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific items of property and equipment, on a selective basis within certain classes of assets, at their fair values at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those assets within these classes of assets where the fair value was lower than the carrying value. For all other assets within these classes of assets where the fair value is greater than the carrying value, those assets have been carried at their Previous GAAP amounts. As a result, under IFRS, property and equipment is lower by $1,414, with a corresponding impact to retained earnings.

4 Certain deferred tax credits (net) amounting to $2,495 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) accelerated amortization of share-based compensation expense amounting to a credit of $1,119;

b) time value of purchased options amounting to a credit of $1,672;

c) application of substantially enacted tax rates amounting to $198; and

d) deferred tax debit amounting to $494 on account of the following:

i) $426 on account of selective measurement of items of property and equipment at its fair value; and

ii) deferred tax created on employee benefits plan in India of $68.

The above adjustment has an impact on retained earnings and other components of equity.

5 Under IFRS, the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result, the carrying value of employee benefits increased by $393 with a corresponding impact to retained earnings.

The Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses up to the Transition Date. As a result, under IFRS, the Company has recognized $425 into retained earnings.

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6 The Company grants share options to its employees. These share options vest in a graded manner over the vesting period. Under IFRS, each tranche of vesting is treated as a separate award and the share-based compensation expense relating to that tranche is amortized over the vesting period of the underlying tranche. This results in accelerated amortization of share-based compensation expense in the initial years following the grant of share options.

Previous GAAP permits an entity to recognize the share-based compensation expense, relating to share options which vest in a graded manner on a straight-line basis over the requisite vesting period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. As a result of the change in accounting treatment under IFRS, share premium is higher by $1,858 on account of higher share-based compensation expense.

7 Under the Indian tax laws, FBT was imposed on all stock options exercised on or after April 1, 2007. Under this legislation, on exercise of an option or RSUs, employers were responsible for a tax equal to the intrinsic value at its vesting date multiplied by the applicable tax rate. The FBT was included as a component of the exercise price while computing the fair value of the grant. In August 2009, Indian tax laws withdrew the levy of FBT with effect from April 1, 2009. Consequent to this change in legislation, no FBT were recovered for options and RSUs issued to Indian optionees, resulting in a reduction in the exercise price of the options and RSUs. Under Previous GAAP, FBT charge was treated as a modification.

Under IFRS, the levy of FBT is accounted as reimbursement under IAS 37. The grant date fair values of options and RSUs computed under the Previous GAAP have been recomputed to remove the effect of FBT component included in the exercise price. As a result of the change in accounting treatment under IFRS, share premium is higher by $782 on account of higher share-based compensation expense.

8 Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. Consequently under IFRS, the change in accounting treatment resulted in an increase to other components of equity by $3,613 (net of tax).

9 Under IFRS the redeemable noncontrolling interest is derecognized, since the Company believes that the risks and rewards of the joint venture always vested with the Company.

Under IFRS, the put option in the joint venture agreement has been classified as a financial liability and valued based on the probability weighted assessment of possible outcomes of the various conditions for the put option. Further, the exercise of the put option is not under the control of the Company. Accordingly, under IFRS, a liability has been recorded based on the obligation existing as at the Transition Date based on the present value of the put option.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as the net settlement of the put option and call option is not possible and hence was not classified as a derivative. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period. As a result, under IFRS, the share of losses on redeemable noncontrolling interest amounting to $53 recorded in other components of equity has been transferred to retained earnings.

10 Under IFRS, the deferred tax asset on share-based compensation expense is adjusted based on the prevailing share price at each reporting date. Any fluctuation in share price will result in a change in deferred tax. At the time of exercise of options, any excess deferred tax created is recognized as a charge in the statement of income.

Under Previous GAAP, deferred tax asset on share-based compensation expense is calculated at the date of the grant of option. At the time of exercise of option, the shortfall is recorded as a debit to equity to the extent prior excess tax benefits exist.

As a result of the change in accounting treatment under IFRS, the Company has recognized $740 of tax deficiency in the statement of income with a corresponding credit to share premium.

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SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)
Reconciliation of profit (loss) for the three months ended September 30, 2010

	Relevant notes for adjustments	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassific- ation	Amount as per IFRS
Revenue		$ 154,159	$	$ 154,159	$	$ 154,159
Cost of revenue	1,2,3,4	120,990	(594)	120,396		120,396
Gross profit		**33,169**	**594**	**33,763**		**33,763**
Operating expenses:						
Selling and marketing expenses	1,3	6,482	(97)	6,385		6,385
General and administrative expenses	1,3	13,172	(187)	12,985		12,985
Foreign exchange gains	9				(1,632)	(1,632)
Amortization of intangible assets		7,922		7,922		7,922
Operating profits		**5,593**	**878**	**6,471**	**1,632**	**8,103**
Other expense (income), net	4,6,9	(1,907)	(326)	(2,233)	2,067	(166)
Finance expense	5,9	1,921	56	1,977	(435)	1,542
Profit before income taxes		**5,579**	**1,148**	**6,727**		**6,727**
Provision for income taxes	7	752	(10)	742		742
Profit after tax		**4,827**	**1,158**	**5,985**		**5,985**
Redeemable noncontrolling interest	8	(94)	94			
Profit		**$ 4,921**	**$ 1064**	**$ 5,985**	**$**	**$ 5,985**

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)
Reconciliation of comprehensive income for the three months ended September 30, 2010

	Relevant notes for adjustments	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassification	Amount as per IFRS
Profit (loss)		**$ 4,827**	**$ 1,158**	**$ 5,985**	**$**	**$ 5,985**
Other comprehensive income for the period, net of taxes						
Pension adjustment	10	81	(12)	69		69
Changes in fair value of cash flow hedges	11	(2,458)	(789)	(3,247)		(3,247)
Foreign currency translation		9,915	(446)	9,469		9,469
Total other comprehensive income, net of taxes		**7,538**	**(1,247)**	**6,291**		**6,291**
Less: Comprehensive income attributable to redeemable noncontrolling interest	12	61	(61)			
Total comprehensive income (loss)		$ **12,304**	$ **(28)**	$ **12,276**	**$**	**$ 12,276**

Notes:

1 Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific item of property and equipment, on a selective basis within certain classes of assets, at its fair value at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those classes of assets where the fair value is lower than the carrying value. The resultant impact was taken to retained earnings as on the Transition Date. As a result, under IFRS, the depreciation charge is lower by $400 in cost of revenue, $51 in selling and marketing expenses and $3 in general and administrative expenses.

2 Under IFRS, the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result of the change in discount rates, under IFRS, the employee benefit expenses have reduced by $14 in cost of revenue.

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(Amounts in thousands, except share and per share data)

3 Under IFRS, the Company amortizes share-based compensation expense, relating to share options, which vest in a graded manner on an accelerated basis. Under Previous GAAP, share-based compensation expense is recorded on a straight-line basis. Accordingly, due to a change in expense recognition method under IFRS, the Company has recognized lower share-based compensation expense of $183 in cost of revenue, $46 in selling and marketing expenses and $184 in general and administrative expenses.

4 Under IFRS, the Company has recorded at fair value lease deposits and the resultant difference between the amount paid and fair value is recognized as prepaid rent. As a result of fair valuation, under IFRS, the cost of revenue has increased by $3 on account of the amortization of deferred rent cost on a straight line basis and recorded interest income of $2 based on the effective interest rate method.

5 Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issue cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue costs have been netted off against the long term debt and amortized to statement of income over the period of the loan. As a result, under IFRS, the expenses are higher on account of debt issue cost amortization by $56.

6 Under Previous GAAP, for effective hedges, the premium paid for purchased options is recorded in other comprehensive income. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period and the resultant gains or losses are reported under the statement of income. As a result, under IFRS, the Company has recognized foreign exchange gains of $305.

Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issuance cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue costs have been netted off against the long term debt. As a result, under IFRS, the Other (income) expense, net is lower by $42.

The Company recorded revaluation loss on account of payout made in respect of contingent consideration amounting to $23.

7 Certain deferred tax credits (net) amounting to $10 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) accelerated amortization of share-based compensation expense amounting to a credit of $127;

b) time value of purchased options amounting to a credit of $1;

c) tax deficiencies on exercise of options recognized in statement of income amounting to a debit of $99; and

d) deferred tax debit amounting to $19 on account of selective measurement of items of property and equipment at their fair value.

8 Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. Under IFRS, the shares held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the Company has a contractual obligation to deliver cash and hence they have been classified as financial liability. As a result, under IFRS, the Company bears all the losses attributable to noncontrolling interest amounting to $94.

9 Under IFRS, the Company has reclassified and presented foreign exchange gain as a separate line item under operating profits. Under Previous GAAP, these transactions were presented under Other (income) expenses, net. Similarly, under IFRS, the mark to market gain of $435 on interest rate swap has been reclassified into finance expense from Other (income) expense, net.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)

10 Under Previous GAAP the Company recognizes actuarial gains and losses in other comprehensive income and subsequently, accumulated gains and losses over and above the 10% corridor are recognized, systematically over the expected working lives of the employees, as an expense component of net periodic benefit cost. Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses in other comprehensive income and subsequently not to recognize the same in statement of income. As a result, under IFRS, the other comprehensive income with respect to pension adjustment is lower by $12.

11 Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. As a result, under IFRS, the other comprehensive income with respect to cash flow hedges (net of tax) is lower by $789.

12 Under IFRS, the shares held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the Company has a contractual obligation to deliver cash and hence they have been classified as financial liability.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period.

Under IFRS, the Company bears all the changes attributable to redeemable noncontrolling interest. Consequently, the other comprehensive income with respect to noncontrolling interest is lower by $61.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)
Reconciliation of profit (loss) for the six months ended September 30, 2010

	Relevant notes for adjustments	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassification	Amount as per IFRS
Revenue		$ 304,123	$	$ 304,123	$	$ 304,123
Cost of revenue	1,2,3,4	244,217	(1,081)	243,136		243,136
Gross profit		**59,906**	**1,081**	**60,987**		**60,987**
Operating expenses:						
Selling and marketing expenses	1,3	11,646	(206)	11,440		11,440
General and administrative expenses	1,3	27,588	(496)	27,092		27,092
Foreign exchange gains	9				(4,666)	(4,666)
Amortization of intangible assets		15,902		15,902		15,902
Operating profits (loss)		**4,770**	**1,783**	**6,553**	**(4,666)**	**11,219**
Other expense (income), net	4,6,9	399	(990)	(591)	250	(341)
Finance expense	5,9	4,614	56	4,670	4,416	9,086
Profit (loss) before income taxes		**(243)**	**2,717**	**2,474**		**2,474**
Provision for income taxes	7	1,249	1,075	2,324		2,324
Profit (loss) after tax		**(1,492)**	**1,642**	**150**		**150**
Redeemable noncontrolling interest	8	(368)	368			
Profit (loss)		$ **(1,124)**	$ **1,274**	$ **150**	$	$ **150**

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SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)
Reconciliation of comprehensive income for the six months ended September 30, 2010

	Relevant notes for adjustments	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassific-ation	Amount as per IFRS
Profit (loss)		**$ (1,492)**	**$ 1,642**	**$ 150**	**$**	**$ 150**
Other comprehensive income for the period, net of taxes						
Pension adjustment	10	(108)	190	82		82
Changes in fair value of cash flow hedges	11	(5,165)	(588)	(5,753)		(5,753)
Foreign currency translation		4,512	44	4,556		4,556
Total other comprehensive (loss) income, net of taxes		**(761)**	**(354)**	**(1,115)**		**(1,115)**
Less: Comprehensive income attributable to redeemable noncontrolling interest	12	(281)	281			
Total comprehensive (loss) income		$ **(1,972)**	$ **1,007**	$ **(965)**	**$**	**$ (965)**

Notes:

1 Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific item of property and equipment, on a selective basis within certain classes of assets, at its fair value at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those classes of assets where the fair value is lower than the carrying value. The resultant impact was taken to retained earnings as on the Transition Date. As a result, under IFRS, the depreciation charge is lower by $805 in cost of revenue, $109 in selling and marketing expenses and $7 in general and administrative expenses.

2 Under IFRS, the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result of the change in discount rates, under IFRS, the employee benefit expenses have reduced by $2 in cost of revenue.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts in thousands, except share and per share data)

3 Under IFRS, the Company amortizes share-based compensation expense, relating to share options, which vest in a graded manner on an accelerated basis. Under Previous GAAP, share-based compensation expense is recorded on a straight-line basis. Accordingly, due to a change in expense recognition method under IFRS, the Company has recognized lower share-based compensation expense of $277 in cost of revenue, $97 in selling and marketing expenses and $489 in general and administrative expenses.

4 Under IFRS, the Company has recorded at fair value lease deposits and the resultant difference between the amount paid and fair value is recognized as prepaid rent. As a result of fair valuation, under IFRS, the cost of revenue has increased by $3 on account of the amortization of deferred rent cost on a straight line basis and recorded interest income of $2 based on the effective interest rate method.

5 Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issue cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue costs have been netted off against the long term debt and amortized to statement of income over the period of the loan. As a result, under IFRS, the expenses are higher on account of debt issue cost amortization by $56.

6 Under Previous GAAP, for effective hedges, the premium paid for purchased options is recorded in other comprehensive income. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period and the resultant gains or losses are reported under the statement of income. As a result, under IFRS, the Company has recognized foreign exchange gains of $636.

Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issuance cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue costs have been netted off against the long term debt. As a result, under IFRS, the Other (income) expense, net is lower by $375.

The Company recorded revaluation loss on account of payout made in respect of contingent consideration amounting to $23.

7 Certain deferred tax debits (net) amounting to $1,075 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) tax deficiencies on exercise of options recognized in statement of income amounting to a debit of $658;

b) accelerated amortization of share-based compensation expense amounting to a debit of $580;

c) deferred tax debit amounting to $40 on account of selective measurement of items of property and equipment at their fair value;

d) time value of purchased options amounting to a credit of $7; and

e) application of substantially enacted rate amounting to a credit of $196.

8 Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. Under IFRS, the shares held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the

Company has a contractual obligation to deliver cash and hence they have been classified as financial liability. As a result, under IFRS, the Company bears all the losses attributable to noncontrolling interest amounting to $368.

9 Under IFRS, the Company has reclassified and presented foreign exchange gain as a separate line item under operating profits. Under Previous GAAP, these transactions were presented under Other (income) expenses, net. Similarly, under IFRS, the mark to market gain of $4,416 on interest rate swap has been reclassified into finance expense from Other (income) expense, net.

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10 Under Previous GAAP the Company recognizes actuarial gains and losses in other comprehensive income and subsequently, accumulated gains and losses over and above the 10% corridor are recognized, systematically over the expected working lives of the employees, as an expense component of net periodic benefit cost. Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses in other comprehensive income and subsequently not to recognize the same in statement of income. As a result, under IFRS, the other comprehensive income with respect to pension adjustment is higher by $190.

11 Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. As a result, under IFRS, the other comprehensive income with respect to cash flow hedges (net of tax) is lower by $588.

12 Under IFRS, the shares held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the Company has a contractual obligation to deliver cash and hence they have been classified as financial liability.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period.

Under IFRS, the Company bears all the changes attributable to redeemable noncontrolling interest. Consequently, the other comprehensive income with respect to noncontrolling interest is higher by $281.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Amounts in thousands, except share and per share data)
Reconciliation of profits for the year ended March 31, 2011

	Relevant notes for adjustment	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassific-ation	Amount as per IFRS
Revenue		$ 616,251	$	$ 616,251	$	$ 616,251
Cost of revenue	1,2,3,4	491,847	(1,826)	490,021		490,021
Gross profit		**124,404**	**1,826**	**126,230**		**126,230**
Operating expenses:						
Selling and marketing expenses	1,3	23,787	(333)	23,454		23,454
General and administrative expenses	1,3	88,566	(393)	88,173		88,173
Foreign exchange gain					(15,123)	(15,123)
Operating profits		**12,051**	**2,552**	**14,603**	**15,123**	**29,726**
Other (income) expense, net	4,6,9	(6,106)	(6,914)	(13,020)	11,895	(1,125)
Finance expense	5	8,018	200	8,218	3,228	11,446
Profit before income taxes		**10,139**	**9,266**	**19,405**		**19,405**
Provision for income taxes	7	1,052	440	1,492		1,492
Profit after tax		**9,087**	**8,826**	**17,913**		**17,913**
Redeemable noncontrolling interest	8	(730)	730			
Profit		$ **9,817**	$ **8,096**	$ **17,913**	$	$ **17,913**

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SEPTEMBER 30, 2011
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Reconciliation of comprehensive income for the year ended March 31, 2011

	Relevant notes for adjustments	Amount as per Previous GAAP	Effect of transition to IFRS	Amount as per IFRS	Reclassific-ation	Amount as per IFRS
Profit		**$ 9,087**	**$ 8,826**	**$ 17,913**	**$**	**$ 17,913**
Other comprehensive income for the period, net of taxes						
Pension adjustment	10	788	(91)	697		697
Changes in fair value of cash flow hedges	11	(4,707)	(7,265)	(11,972)		(11,972)
Foreign currency translation		7,544	(239)	7,305		7,305
Total other comprehensive income (loss), net of taxes		**3,625**	**(7,595)**	**(3,970)**		**(3,970)**
Less: Comprehensive income attributable to redeemable noncontrolling interest	12	(633)	633			
Total comprehensive income		**$ 13,345**	**$ 598**	**$ 13,943**	**$**	**$ 13,943**

Notes:

1 Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to deemed cost and measured specific items of property and equipment, on a selective basis within certain classes of assets, at their fair values at the Transition Date. Consequent to this, the fair value as of the Transition Date is taken as their deemed cost for all those classes of assets where the fair value is lower than the carrying value. As a result, under IFRS, the depreciation charge is lower by $1,524 in cost of revenue, $206 in selling and marketing expenses and $12 in general and administrative expenses.

2 Under IFRS, the Company uses the projected unit credit method to determine the present value of defined benefit obligations using the market yields on Government bonds. Under Previous GAAP, the Company used a discount rate that reflects Government bond yield plus a spread for credit risk. As a result of the change in discount rates, under IFRS, the employee benefit expense has reduced by $49 in cost of revenue.

WNS (HOLDINGS) LIMITED
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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3 Under IFRS, the Company amortizes share-based compensation expense, relating to share options which vest in a graded manner on an accelerated basis. Under Previous GAAP, share-based compensation expense is recorded on a straight-line basis. Accordingly, due to the change in expense recognition method under IFRS, the Company has recognized lower share-based compensation expense of $286 in cost of revenue, $127 in selling and marketing expenses and $381 in general and administrative expenses.

4 Under IFRS, the Company has recorded at fair value lease deposits and the resultant difference between the amount paid and fair value is recognized as prepaid rent difference. As a result of the fair valuation, under IFRS, the cost of revenue has increased by $33 on account of the amortization of deferred rent cost on a straight line basis and recorded interest income $23 based on the effective interest rate method.

5 Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issue cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue costs have been netted off against the long term debt and amortized to the statement of income over the period of the loan. As a result, under IFRS, the expenses are higher on account of debt issue cost amortization by $200.

6 Under Previous GAAP, for effective hedges, the premium paid for purchased options is recorded in other comprehensive income. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period and the resultant gains or losses are reported under the statement of income. As a result, under IFRS, the Company has recognized foreign exchange gains of $6,496.

Under Previous GAAP, in connection with the refinancing of the long term debt, the debt issuance cost for the new loan pertaining to existing lenders continuing as new lenders were charged to the statement of income. Under IFRS, the debt issue cost has been netted off against the long term debt. As a result, under IFRS, the other (income) expenses are lower by $418.

The Company recorded revaluation loss on account of payout made in respect of contingent consideration amounting to $23.

7 Certain deferred tax debit (net) amounting to $440 not recognized under Previous GAAP are now recognized under IFRS due to a difference in accounting treatment on account of:

a) tax deficiencies on exercise of options recognized in the statement of income amounting to a debit of $738;

b) selective measurement of items of property and equipment at their fair value amounting to a debit of $83;

c) time value of purchased option amounting to a debit of $46;

d) accelerated amortization of share-based compensation expense amounting to a credit of $132;

e) deferred tax asset created on employee benefits in India amounting to a credit of $100; and

f) application of substantially enacted rate amounting to a credit of $196.

8 Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. Under IFRS, the shares

held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the Company has a contractual obligation to deliver cash and hence they have been classified as financial liability. As a result, under IFRS, the Company bears all the losses attributable to noncontrolling interest amounting to $730.

9 Under IFRS, the Company has reclassified and presented foreign exchange (gain)/losses as a separate line item under Operating Profits. Under Previous GAAP, these transactions were presented under Other (Income) Expenses, net. Similarly, under IFRS, the mark to market loss of $3,228 on interest rate swap has been reclassified into finance expense from Other (income) expense.

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(Amounts in thousands, except share and per share data)

10 Under Previous GAAP the Company recognizes actuarial gains and losses in other comprehensive income and subsequently, accumulated gains and losses over and above the 10% corridor are recognized, systematically over the expected working lives of the employees, as an expense component of net periodic benefit cost. Under IFRS, the Company has applied the exemption as provided in IFRS 1 with respect to employee benefits and has elected to recognize all cumulative actuarial gains and losses in other comprehensive income and subsequently not to recognize the same in the statement of income. As a result, under IFRS, the other comprehensive income with respect to pension adjustment is lower by $91.

11 Under Previous GAAP, for effective hedges the premium paid for purchased options were recorded in other components of equity. Under IFRS, the time value of the options are separated from the option value and recorded at fair value at each reporting period with the resultant gains or losses reported in the statement of income. As a result, under IFRS, the other comprehensive income with respect to cash flow hedges (net of tax) is lower by $7,265.

12 Under IFRS, the shares held by redeemable noncontrolling interest do not meet the conditions for being classified as equity since the Company has a contractual obligation to deliver cash and hence they have been classified as financial liability.

Under Previous GAAP, redeemable noncontrolling interest was classified as temporary equity as certain conditions of the put option and call option are not within the control of the Company. The Company recognized the changes in redemption value of the redeemable noncontrolling interest at the end of each reporting period.

Under IFRS, the Company bears all the changes attributable to redeemable noncontrolling interest. Consequently, the other comprehensive income with respect to noncontrolling interest is higher by $633.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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3. New accounting pronouncements not yet adopted by the Company

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Company s accounting periods beginning on or after April 1, 2011 or later periods. Those which are considered to be relevant to the Company s operations are set out below.

i. International Accounting Standards Board (IASB) issued an amendment in IFRS 7 *Financial Instruments: Disclosure* (IFRS 7) that requires additional quantitative and qualitative disclosures relating to transfers of financial assets effective for annual periods beginning on or after July 1, 2011 with earlier application permitted, where:

   financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets); and

   financial assets are not derecognized in their entirety.

   The Company is evaluating the impact of additional disclosure requirement.

ii. In November 2009, the IASB issued IFRS 9 *Financial Instruments: Classification and Measurement* (IFRS 9). This standard introduces certain new requirements for classifying and measuring financial assets and liabilities and divides all financial assets that are currently in the scope of IAS 39 into two classifications, viz. those measured at amortized cost and those measured at fair value. The standard has subsequently proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting.

   IFRS 9 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact that will have on its consolidated financial statements.

iii. In May 2011, the IASB issued IFRS 13 *Fair Value Measurements* (IFRS 13). IFRS 13 defines fair value, provides single IFRS framework for measuring fair value; and requires disclosure about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements.

iv. In May, 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* (IFRS 10) which replaces consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation Special Purpose Entities* and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This pronouncement is effective for the annual period beginning on or after January 1, 2013 with earlier application permitted so long as each of this standard is applied together with other four standards as mentioned below;

   IFRS 11 *Joint Ventures*

   IFRS 12 *Disclosures of Involvement with Other Entities*

   IAS 27 (Revised) *Separate Financial Statements*

IAS 28 (Revised) *Investments in Associates and Joint Ventures*

The remainder of IAS 27, *Separate Financial Statements*, now contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not applicable in the Company s consolidated financial statements.

IFRS 11 *Joint Arrangements* (IFRS 11), which replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities Non-monetary Contributions by Venturers*, requires a single method, known as the equity method, to account for interests in jointly controlled entities. The proportionate consolidation method in joint ventures is prohibited. IAS 28, *Investments in Associates and Joint Ventures*, was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures. The application of the equity method has not changed as a result of this amendment.

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IFRS 12 *Disclosure of Interest in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11.

The Company is currently evaluating the impact of above pronouncements on the Company s consolidated financial statements.

v. In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements* (IAS 1). The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group items within other comprehensive income that may be reclassified to the profit or loss separately from those items which would not be recyclable in the profit or loss section of the statement of income. It also requires the tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. This amendment is applicable to annual periods beginning on or after 1 July 2012, with early adoption permitted. The Company is required to adopt IAS 1 (Amended) by accounting year commencing April 1, 2013. The Company has evaluated the requirements of IAS 1 (Amended) and the Company does not believe that the impacts of adoption of IAS 1 (Amended) will have a material effect on its consolidated financial statements.

vi. In June 2011, the IASB issued an amended IAS 19 *Employee Benefits"*. This amendment is applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted. Apart from certain miscellaneous changes, key changes are:

a. recognition of changes in the net defined liability(assets);

b. introduced enhanced disclosures about defined benefit plans; and

c. modified accounting for termination benefits.

The Company is currently evaluating the impact that will have on its consolidated financial statements.

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4. Cash and cash equivalents

The Company considers all highly liquid investments with an initial maturity of up to three months to be cash equivalents. The components of cash and cash equivalents are as follows:

	As at		
	September 30, 2011	**March 31, 2011**	**April 1, 2010**
Cash and bank balance	$ 14,390	$ 21,631	$ 25,320
Short term deposits with bank	1,744	5,459	6,991
Total	**$ 16,134**	**$ 27,090**	**$ 32,311**

Short term deposits can be withdrawn by the Company at any time without prior notice and without any penalty on the principal.

5. Trade receivables

	As at		
	September 30, 2011	**March 31, 2011**	**April 1, 2010**
Trade receivables	$ 60,551	$ 82,427	$ 47,234
Trade receivables from related parties	407	556	739
Allowances for doubtful account receivables	(5,007)	(4,397)	(3,152)
Total	**$ 55,951**	**$ 78,586**	**$ 44,821**

The activity in the allowances for doubtful accounts receivables is given below:

	As at		
	September 30, 2011	**March 31, 2011**	**April 1, 2010**
Balance at the beginning of the period	$ 4,397	$ 3,152	$ 1,935
Charged to operations	876	1,794	1,666
Write-off, net of collections		(183)	(20)
Reversal	(149)	(510)	(428)
Translation adjustment	(117)	144	(1)
Balance at the end of the period	$ **5,007**	**$ 4,397**	**$ 3,152**

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6. Prepayment and other assets

Prepayment and other assets consist of the following:

	As at		
	September 30, 2011	**March 31, 2011**	**April 1, 2010**
Current:			
VAT receivables	$ 11,676	$ 10,103	$ 8,644
Deferred cost	965	1,153	907
Employee receivables	1,687	1,232	1,526
Advances	4,032	1,006	1,035
Prepaid expenses	4,253	2,581	2,101
Other assets	141	372	2,481
Total	$ **22,754**	$ **16,447**	$ **16,694**
Non-current:			
Deferred cost	$ 573	$ 734	$ 1,224
Transition premium	222	246	301
Deposits	6,655	7,060	7,086
Total	$ **7,450**	$ **8,040**	$ **8,611**

7. Goodwill

Goodwill as at September 30, 2011 and March 31, 2011 has been allocated to the Cash Generating Units (CGU), identified to be operating segments, as follows:

	WNS Global BPO	**WNS Auto Claims**	**Total**
Balance as at April 1, 2010	$ 59,515	$ 31,147	$ 90,662
Foreign currency translation	774	2,097	2,871
Balance as at March 31, 2011	$ 60,289	$ 33,244	$ 93,533
Foreign currency translation	(4,949)	(1,029)	(5,978)
Balance as at September 30, 2011	$ **55,340**	$ **32,215**	$ **87,555**

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8. Intangibles

The following are the changes in the carrying value of acquired intangible for the year ended March 31, 2011:

Gross carrying value	Customer contracts	Customer relationship	Intellectual property rights	Leasehold benefits	Covenant not-to-compete	Total
Balance as at April 1, 2010	$ 189,961	$ 64,891	$ 4,660	$ 1,835	$ 337	$ 261,684
Translation adjustments	249	617	314		16	1,196
Balance as at March 31, 2011	$ 190,210	$ 65,508	$ 4,974	$ 1,835	$ 353	$ 262,880
Accumulated amortization and impairment						
Balance as at April 1, 2010	$ 49,301	$ 19,962	$ 3,344	$ 789	$ 209	$ 73,605
Amortization	21,270	8,822	1,198	459	61	31,810
Translation adjustments	248	351	270		9	878
Balance as at March 31, 2011	$ 70,819	$ 29,135	$ 4,812	$ 1,248	$ 279	$ 106,293
Net carrying value as at March 31, 2011	**$ 119,391**	**$ 36,373**	**$ 162**	**$ 587**	**$ 74**	**$ 156,587**

The following are the changes in the carrying value of acquired intangible for the six months ended September 30, 2011:

Gross carrying value	Customer contracts	Customer relationship	Intellectual property rights	Leasehold benefits	Covenant not-to-compete	Total
Balance as at April 1, 2011	$ 190,210	$ 65,508	$ 4,974	$ 1,835	$ 353	$ 262,880
Translation adjustments	(9,905)	(981)	(154)		(8)	(11,048)
Balance as at September 30, 2011	$ 180,305	$ 64,527	$ 4,820	$ 1,835	$ 345	$ 251,832
Accumulated amortization and impairment						
Balance as at April 1, 2011	$ 70,819	$ 29,135	$ 4,812	$ 1,248	$ 279	$ 106,293
Amortization	10,513	4,451	162	230	32	15,388
Translation adjustments	(1,036)	(814)	(154)		(7)	(2,011)

Balance as at September 30, 2011	$	80,296	$	32,772	$	4,820	$	1,478	$	304	$ 119,670
Net carrying value as at September 30, 2011	**$**	**100,009**	**$**	**31,775**	**$**		**$**	**357**	**$**	**41**	**$ 132,162**

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9. Property and equipment, net

The following are the changes in the carrying value of property and equipment for the year ended March 31, 2011:

Gross carrying value	**Buildings**	**Computers and software**	**Furniture, fixtures and office equipment**	**Vehicles**	**Leasehold improve-ments**	**Total**
Balance as at April 1, 2010	$ 12,424	$ 59,828	$ 51,269	$ 2,299	$ 40,193	$ 166,013
Additions	170	5,375	5,184	1,180	4,326	16,235
Disposal		294	422	1,174	590	2,480
Translation adjustments	79	1,573	686	22	514	2,874
Balance as at March 31, 2011	$ 12,673	$ 66,482	$ 56,717	$ 2,327	$ 44,443	$ 182,642
Accumulated depreciation and impairment						
Balance as at April 1, 2010	$ 846	$ 51,293	$ 41,128	$ 1,807	$ 27,885	$ 122,959
Depreciation	674	5,792	5,175	408	5,571	17,620
Disposal		256	452	547	605	1,860
Translation adjustments	19	1,334	566	15	403	2,337
Balance as at March 31, 2011	$ 1,539	$ 58,163	$ 46,417	$ 1,683	$ 33,254	$ 141,056
Capital work-in-progress						5,592
Net carrying value as at March 31, 2011						**$ 47,178**

The following are the changes in the carrying value of property and equipment for the six months ended September 30, 2011:

Gross carrying value	**Buildings**	**Computers and software**	**Furniture, fixtures and office equipment**	**Vehicles**	**Leasehold improve-ments**	**Total**
Balance as at April 1, 2011	$ 12,673	$ 66,482	$ 56,717	$ 2,327	$ 44,443	$ 182,642
Additions	5	3,797	5,111	420	7,151	16,484
Disposal		664	593	822	1	2,080
Translation adjustments	(587)	(4,693)	(4,582)	(169)	(4,079)	(14,110)
	$ 12,091	$ 64,922	$ 56,653	$ 1,756	$ 47,514	$ 182,936

Balance as at September 30, 2011						
Accumulated depreciation and impairment						
Balance as at April 1, 2011	$ 1,539	$ 58,163	$ 46,417	$ 1,683	$ 33,254	$ 141,056
Depreciation	341	3,071	2,162	99	2,522	8,195
Disposal		669	484	343	4	1,500
Translation adjustments	(82)	(4,183)	(3,740)	(129)	(3,015)	(11,149)
Balance as at September 30, 2011	$ 1,798	$ 56,382	$ 44,355	$ 1,310	$ 32,757	$ 136,602
Capital work-in-progress						2,167
Net carrying value as at September 30, 2011						**$ 48,501**

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10. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by categories as at September 30, 2011 were as follows:

Financial Assets

	Loans and receivables	Financial assets at FVTPL	Derivative designated as cash flow hedges (carried at fair value)	Available for sale	Total carrying value
Cash and cash equivalents	$ 16,134	$	$	$	$ 16,134
Trade receivables	55,951				55,951
Unbilled revenue	37,606				37,606
Prepayments and other assets [1]	17,395				17,395
Investments				2	2
Other non-current assets[2]	6,655				6,655
Derivative assets		544	7,215		7,759
Total carrying value	**$ 133,741**	**$ 544**	**$ 7,215**	**$ 2**	**$ 141,502**
Total fair value	**$ 132,959**	**$ 544**	**$ 7,215**	**$ 2**	**$ 140,720**

Financial Liabilities

	Financial liabilities at FVTPL	Derivative designated as cash flow hedges (carried at fair value)	Financial liabilities at Amortized Cost	Total carrying value
Trade payables	$	$	$ 32,611	$ 32,611
Debt			72,203	72,203
Short term line of credit			18,982	18,982
Pension and other employee obligations			30,041	30,041
Other liabilities[3]	2,033		1,077	3,110
Derivative liabilities	5,826	12,191		18,017
Total carrying value	**$ 7,859**	**$ 12,191**	**$ 154,914**	**$ 174,964**
Total fair value	**$ 7,859**	**$ 12,191**	**$ 154,877**	**$ 174,927**

Notes:

1. Excluding non-financial assets $5,359.

2. Excluding non-financial assets $795.

3. Excluding non-financial liabilities $809.

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The carrying value and fair value of financial instruments by categories as at March 31, 2011 were as follows:

Financial Assets

	Loans and receivables	Financial assets at FVTPL	Derivative designated as cash flow hedges (carried at fair value)	Available for sale	Total carrying value
Cash and cash equivalents	$ 27,090	$	$	$	$ 27,090
Bank deposits and marketable securities	12				12
Trade receivables	78,586				78,586
Unbilled revenue	30,837				30,837
Prepayments and other assets [1]	12,341				12,341
Derivative assets		8,409	5,055		13,464
Investments				2	2
Other non-current assets [2]	7,060				7,060
Total carrying value	$ 155,926	$ 8,409	$ 5,055	$ 2	$ 169,392
Total fair value	$ 154,781	$ 8,409	$ 5,055	$ 2	$ 168,247

Financial Liabilities

	Financial liabilities at FVTPL	Derivative designated as cash flow hedges (carried at fair value)	Financial liabilities at amortized cost	Total carrying value
Trade payables	$	$	$ 43,748	$ 43,748
Long term debt			92,281	92,281
Short term line of credit			14,593	14,593
Pension and other employee obligations			35,514	35,514
Other liabilities [3]	1,767		1,354	3,121
Derivative liabilities	5,410	4,984		10,394
Total carrying value	$ 7,177	$ 4,984	$ 187,490	$ 199,651
Total fair value	$ 7,177	$ 4,984	$ 186,937	$ 199,099

Notes:

1. Excluding non-financial assets $4,106.

2. Excluding non-financial assets $980.

3. Excluding non-financial liabilities $1,005.

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Fair value hierarchy

The following is the hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The assets and liabilities measured at fair value on a recurring basis are summarized below as on September 30, 2011:-

		Fair value measurement at reporting date using		
Description	**September 30, 2011**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets				
Financial assets at FVTPL				
Foreign exchange contracts	$ 544	$	$ 544	$
Financial assets at fair value through other comprehensive income				
Foreign exchange contracts	7,215		7,215	
Total assets	**$** 7,759	**$**	**$** 7,759	**$**
Liabilities				
Financial liabilities at FVTPL				
Foreign exchange contracts	$ 5,826	$	$ 5,826	$
Financial liabilities at fair value through other comprehensive income				
Foreign exchange contracts	11,302		11,302	
Interest rate swaps	889		889	
Total liabilities	**$** 18,017	**$**	**$** 18,017	**$**

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The assets and liabilities measured at fair value on a recurring basis are summarized below as on March 31, 2011:-

		Fair value measurement at reporting date using		
Description	**March 31, 2011**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets				
Financial assets at FVTPL				
Foreign exchange contracts	$ 8,409	$	$ 8,409	$
Financial assets at fair value through other comprehensive income				
Foreign exchange contracts	5,055		5,055	
Total assets	**$** 13,464	**$**	**$** 13,464	**$**
Liabilities				
Financial liabilities at FVTPL				
Foreign exchange contracts	$ 5,410	$	$ 5,410	$
Financial liabilities at fair value through other comprehensive income				
Foreign exchange contracts	3,083		3,083	
Interest rate swaps	1,901		1,901	
Total liabilities	**$** 10,394	**$**	**$** 10,394	**$**

The fair value is estimated using the discounted cash flow approach and market rates of interest. The valuation technique involves assumption and judgments regarding risk characteristics of the instruments, discount rates, future cash flows and other factors. During the six months ended September 30, 2011 and year ended March 31, 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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Derivative financial instruments

The primary risks managed by using derivative instruments are foreign currency exchange risk and interest rate risk. Forward and option contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk on forecasted revenue denominated in foreign currencies and monetary assets and liabilities held in non-functional currencies. Interest rate swaps are entered into to manage interest rate risk associated with the Company s floating rate borrowings. The Company s primary exchange rate exposure is with the US dollars, pound sterling and the Indian rupee. For derivative instruments which qualify for cash flow hedge accounting, the Company records the effective portion of gain or loss from changes in the fair value of the derivative instruments in other comprehensive income (loss), which is reclassified into earnings in the same period during which the hedged item affects earnings. Derivative instruments qualify for hedge accounting when the instrument is designated as a hedge; the hedged item is specifically identifiable and exposes the Company to risk; and it is expected that a change in fair value of the derivative instrument and an opposite change in the fair value of the hedged item will have a high degree of correlation. Determining the high degree of correlation between the change in fair value of the hedged item and the derivative instruments involves significant judgment including the probability of the occurrence of the forecasted transaction. When it is probable that a forecasted transaction will not occur, the Company discontinues the hedge accounting and recognizes immediately in the statement of income, the gains and losses attributable to such derivative instrument that were accumulated in other comprehensive income (loss).

As at September 30, 2011, an unrealized loss of $2,290 on derivative instruments included in other comprehensive income is expected to be reclassified to earnings during the next 12 months (unrealized gain of $5,091 as at March 31, 2011).

As at September 30, 2011 the notional values of outstanding foreign exchange forward contracts and foreign exchange option contracts amounted to $317,545 and $275,557, respectively ($273,500 and $250,012, respectively, as at March 31, 2011).

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Financial risk management

Financial risk factors

The Company s activities expose it to a variety of financial risks: market risk, interest risk, credit risk and liquidity risk. The Company s primary focus is to foresee the unpredictability of financial markets and seek to minimize potential adverse effects on its financial performance. The primary market risk to the Company is foreign exchange risk. The Company uses derivative financial instruments to mitigate foreign exchange related risk exposures. The Company s exposure to credit risk is influenced mainly by the individual characteristic of each customer and the concentration of risk from the top few customers. The demographics of the customer including the default risk of the industry and country in which the customer operates also has an influence on credit risk assessment.

Risk management procedures

The Company manages market risk through treasury operations. Senior management and board of directors approve the Company s treasury operations objectives and policies. The activities of treasury operations include management of cash resources, implementation of hedging strategies for foreign currency exposures, implementation of borrowing strategies and monitoring compliance with market risk limits and policies. The Company s foreign exchange committee, comprising the Chairman of the Board, Group Chief Executive Officer and Group Chief Financial Officer, is the approving authority for all hedging transactions.

Components of market risk

Exchange rate risk:

The Company s exposure to market risk arises principally from exchange rate risk. Although substantially all of revenue is denominated in pound sterling and US dollars, a significant portion of expenses for the six months ended September 30, 2011 (net of payments to repair centers made as part of the Company s WNS Auto Claims BPO segment) were incurred and paid in Indian rupees. The exchange rates among the Indian rupee, the pound sterling and the US dollar have changed substantially in recent years and may fluctuate substantially in the future. The Company hedges a portion of forecasted external and inter-company revenue denominated in foreign currencies with forward contracts and options. The Company does not enter into hedging agreements for speculative purposes and does not anticipate non-performance by the counterparties.

Based upon the Company s level of operations for the six months ended September 30, 2011, a sensitivity analysis shows that a 10% appreciation in the pound sterling against the US dollar would have increased revenue for the six months ended September 30, 2011 by approximately $18,867. Similarly, a 10% appreciation or depreciation in the Indian rupee against the US dollar would have increased or decreased, respectively, the Company s expenses incurred and paid in Indian rupee for the six months ended September 30, 2011 by approximately $2,968.

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Interest risk:

The Company s exposure to interest rate risk arises principally from borrowings which have a floating rate of interest, a portion of which is linked to the US dollar LIBOR and the remainder is linked to the Bank of England base rate. The costs of floating rate borrowings may be affected by the fluctuations in the interest rates. In connection with the term loan facility entered into in 2008, which was refinanced in 2010, the Company entered into interest rate swap agreements with banks in fiscal 2009. These swap agreements effectively converted the term loan from a variable US dollar LIBOR interest rate to a fixed rate, thereby managing the Company s exposure to changes in market interest rates under the term loan. The outstanding swap agreements as at September 30, 2011 aggregated $54,000. The Company s use of derivative instruments is limited to effective fixed and floating interest rate swap agreements used to manage well-defined interest rate risk exposures.

The Company monitors positions and does not anticipate non-performance by the counterparties. It intends to selectively use interest rate swaps, options and other derivative instruments to manage exposure to interest rate movements. These exposures are reviewed by appropriate levels of management on a periodic basis. The Company does not enter into hedging agreements for speculative purposes.

Credit risk:

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. Trade receivables are typically unsecured and are derived from revenue earned from customers primarily located in the United Kingdom and the United States. Credit risk is managed through periodical assessment of the financial reliability of customers, taking into account the financial condition, current economic trends, analysis of historical bad debts and ageing of accounts receivable.

The following table gives details in respect of percentage of revenue generated from top customer and top five customers:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Revenue from top customer	18%	16%	17%	17%
Revenue from top five customers	42%	54%	42%	54%

Financial assets that are neither past due nor impaired

Cash equivalents, bank deposits and marketable securities, unbilled revenue and other assets, are neither past due and nor impaired except trade receivables as described below.

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Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired except for trade receivables. The age wise break up of trade receivables, net of allowances that are past due beyond credit period, is given below:

	As at	
	September 30, 2011	March 31, 2011
Neither past due nor impaired	$ 46,180	$ 44,323
Past due but not impaired Past due 0-30 days	2,054	9,362
Past due 31-60 days	922	1,580
Past due 61-90 days	829	4,934
Past due over 90 days	10,973	22,784
Total	$ 60,958	$ 82,983
Allowances for doubtful account receivables	$ (5,007)	$ (4,397)
Trade receivables net of allowances for doubtful account receivables	$ 55,951	$ 78,586

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses and service financial obligations. In addition, the Company has concluded arrangements with well reputed banks and has unused lines of credit that could be drawn upon should there be a need.

On July 12, 2010 the Company entered into a term loan facility of $94,000 in Mauritius with interest equal to the three month US dollar LIBOR plus a margin of 2% per annum. This term loan is repayable in semi-annual installments of $20,000 on each of January 10, 2011 and July 11, 2011 and $30,000 on January 10, 2012 with the final installment of $24,000 payable on July 10, 2012. On January 10, 2011 and July 11, 2011, the Company made a scheduled installment repayment of $20,000 each, following which the amount outstanding under the facility was $54,000.

The Company has also established a £19,760 ($30,806 based on the exchange rate on September 30, 2011) line of credit in UK pursuant to a facility agreement dated June 30, 2010. This facility consists of a two year term loan facility of £9,880 ($15,403 based on the exchange rate on September 30, 2011) at the Bank of England base rate plus a margin of 1.95% per annum and a working capital facility of £9,880 ($15,403 based on the exchange rate on September 30, 2011) at the Bank of England base rate plus a margin of 2.45% per annum which has been renewed on June 30, 2011. As at September 30, 2011 the amount outstanding under the term loan facility was £9,880 ($15,403 based on the exchange rate on September 30, 2011) and an amount of £4,671 ($7,282 based on the exchange rate on September 30, 2011) was utilized from the working capital facility.

The Company has also established a $3,200 line of credit in the Philippines pursuant to a facility agreement dated September 8, 2010. This facility consists of a three year term loan facility at the three-month US dollar LIBOR plus a margin of 3% per annum. As at September 30, 2011 the amount outstanding under the facility was $3,200.

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The Company s Indian subsidiary, WNS Global, has set up unsecured lines of credit of 470,000 ($9,598 based on the exchange rate on September 30, 2011) from The Hongkong and Shanghai Corporation Limited and $10,000 from BNP Paribas, interest on which would be determined on the date of the borrowing. As at September 30, 2011, 293,805 ($6,000 based on the exchange rate on September 30, 2011) was utilized for working capital requirement and 11,482 ($234 based on the exchange rate on September 30, 2011) was utilized for obtaining bank guarantees from the line of credit available with The Hongkong and Shanghai Corporation Limited and $5,000 was utilized for working capital requirements from the line of credit available with BNP Paribas.

11. Employee benefits

Defined contribution plan

The following table sets forth the Company s contribution to defined contribution plans:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
India	$ 1,329	$ 1,304	$ 2,695	$ 2,668
Philippines	9	7	19	19
Sri Lanka	78	82	160	166
United Kingdom	212	181	395	398
United States	82	78	153	176
Total	**$ 1,710**	**$ 1,652**	**$ 3,422**	**$ 3,427**

Defined benefit plan

The following table sets forth the net periodic cost recognized by the Company in respect of gratuity payments under the Company s gratuity plans covering eligible employees of the Company in India, the Philippines and Sri Lanka.

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Net periodic gratuity cost				
Service cost	$ 371	$ 384	$ 749	$ 772
Interest cost	122	103	248	207
Net periodic gratuity cost for the period	**$ 493**	**$ 487**	**$ 997**	**$ 979**

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12. Other liabilities

	As at		
	September 30, 2011	March 31, 2011	April 1, 2010
Current:			
Withholding taxes and VAT payables	$ 809	$ 1,005	$ 2,728
Noncontrolling interest	2,033	1,767	1,676
Other liabilities	1,077	1,354	4,341
Total	**$ 3,919**	**$ 4,126**	**$ 8,745**
Non-current:			
Deferred rent expenses	$ 2,359	$ 2,851	$ 3,071
Other liabilities		127	656
Total	**$ 2,359**	**$ 2,978**	**$ 3,727**

13. Revenue recognition

In Auto Claims BPO, the Company has started re-negotiating contractual terms with insurance company and the repair centers as and when they come up for renewal. The Company has renewed its contract with one of its customer and negotiated a new contract with the repair center in April 2011. In May 2011, the Company has further negotiated for a new contract with the repair center, which is appended as part of the main revenue contract with two other insurance customers.

The key changes to the Principal Agent Consideration are summarized below:

a) The primary responsibility of the repair work has now shifted from the Company to the repair center.

b) The credit risk is now passed on from the Company to the insurance company.

c) The true economic benefit which the Company earns in the process is the claims handling fee with the repairs cost being a pass through from the insurance company to the repair center without any significant risk and reward involved on the Company s part.

The Company has evaluated the principal or agent recognition criteria as per IAS 18. Based on the evaluation of the terms of the contract with repair centers and arrangement with insurance company, the Company has concluded that it is not the principal in providing claims handling services and hence it would be appropriate to record revenue from repair services on a net basis i.e. net of repair cost.

Accordingly, the revenues from three of the Company s clients in Auto Claims BPO have been recorded net of repair cost during the six months period ended September 30, 2011. The change in revenue accounting for one of its clients is effective from April 2011 and the balance two clients is effective from May 2011.

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14. Expenses by nature

	Three months ended September 30,		Six months ended September 30,	
	2011	**2010**	**2011**	**2010**
Employee cost	$ 54,790	$ 48,464	$ 111,634	$ 97,516
Repair payments	17,708	61,049	45,532	121,705
Facilities cost	15,551	13,809	28,793	28,462
Depreciation cost	4,128	4,349	8,195	9,227
Legal and professional expenses	3,466	4,099	7,443	8,612
Travel expenses	3,740	3,165	7,446	5,823
Other cost	5,954	4,831	11,082	10,323
Total cost of revenue, selling and marketing and general and administrative expenses	**$ 105,337**	**$ 139,766**	**$ 220,125**	**$ 281,668**

15. Share-based payments

The Company has two share-based incentive plans, the 2002 Stock Incentive Plan adopted on July 1, 2002 and the 2006 Incentive Award Plan adopted on June 1, 2006, as amended and restated in September 2011 (collectively referred to as the Plans). Under the Plans, share based options may be granted to eligible participants. Options are generally granted for a term of ten years and have a graded vesting period of up to four years. The Company settles employee share-based option exercises with newly issued ordinary shares.

Share-based compensation expense during the three and six months ended September 30, 2011 and 2010 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2011	**2010**	**2011**	**2010**
Share-based compensation expense recorded in				
Cost of revenue	$ 184	$ 119	$ 510	$ 127
Selling, general and administrative expenses	105	34	221	38
General and administrative expenses	772	443	1,795	474
Total share-based compensation expense	$ 1,061	$ 596	$ 2,526	$ 639

Upon exercise of stock options and RSUs the Company issued 102,835 and 212,874 shares, respectively, for the three months ended September 30, 2011 and 2010 and 159,793 and 586,006 shares, respectively, for the six months ended September 30, 2011 and 2010.

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16. Income taxes and subsequent events

The domestic and foreign source component of profit (loss) before income taxes is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Domestic	$ (756)	$ (134)	$ (1,593)	$ (606)
Foreign	6,588	6,861	10,813	3,080
Profit before income taxes	$ **5,832**	**$ 6,727**	**$ 9,220**	**$ 2,474**

The Company s provision for income taxes consists of the following:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Current taxes				
Domestic taxes	$	$	$	$
Foreign taxes	7,838	3,094	11,919	6,313
	$ 7,838	$ 3,094	$ 11,919	$ 6,313
Deferred taxes				
Domestic taxes	$	$	$	$
Foreign taxes	(5,434)	(2,352)	(6,786)	(3,989)
	$ 2,404	**$ 742**	**$ 5,133**	**$ 2,324**

Domestic taxes are nil as there are no statutory taxes applicable in Jersey, Channel Islands. Foreign taxes are based on applicable tax rates in each subsidiary s jurisdiction.

Provision (credit) for income taxes has been allocated as follows:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Income taxes on profit	$ 2,404	$ 742	$ 5,133	$ 2,324
Income taxes on other comprehensive income unrealized gain on cash flow hedging derivatives	(2,618)	338	(3,079)	(174)
Total income taxes	**$ (214)**	**$ 1,080**	**$ 2,054**	**$ 2,150**

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The Company has 13 delivery centers in India which were eligible to claim income-tax exemption with respect to profits earned from export revenue from operating units registered under the Software Technology Parks of India (STPI) which expired on April 1, 2011. The Company has a delivery center located in Gurgaon, India registered under the Special Economic Zone (SEZ) scheme and eligible for 100% income tax exemption until fiscal 2012, and 50% income tax exemption from fiscal 2013 till fiscal 2022. During fiscal 2012, the Company has also started its operations in delivery centers in Pune & Navi Mumbai, India registered under the SEZ scheme and eligible for 100% income tax exemption until fiscal 2016 and 50% income tax exemption from fiscal 2017 till fiscal 2026. The Government of India pursuant to the Indian Finance Act, 2011 has levied minimum alternate tax (MAT) on the profits earned by the SEZ units at the rate of 20.01%. The Company s operations in Costa Rica and Philippines are also eligible for tax exemptions which expire in fiscal 2017 and fiscal 2013, respectively. The Company s operations in Sri Lanka were also eligible for tax exemptions which expired in fiscal 2011. However, the Government of Sri Lanka has exempted the profits earned from export revenue from tax. This will enable the Company s Sri Lankan subsidiary to continue to claim tax exemption under Sri Lankan Inland Revenue Act following the expiry of the tax holiday.

In January 2009 the Company received an order of assessment for fiscal 2005 from the Indian tax authorities that could give rise to an estimated $14,870 in additional taxes, including interest of $4,614. The Company had contested the order and in November 2010 the Company received the order from the first level Indian appellate authority deciding the issues in favor of the Company. However, the order has been contested before higher appellate authorities by the Indian tax authorities.

In November 2009, the Company received draft orders of assessment in relation to WNS Global and certain of its other subsidiaries assessed for tax in India for fiscal 2006 from the Indian tax authorities. The Company had contested the draft orders of assessment before the Dispute Resolution Panel (DRP), a panel set up by the Government of India as alternate first level appellate authorities. The DRP order as well as the orders of assessment giving effect to the DRP order, which were received by the Company in the month of September 2010, could give rise to an estimated $9,339 in additional taxes, including interest of $3,275 in the case of WNS Global, and $5,580 in additional taxes, including interest of $1,949 in the case of certain of its other subsidiaries assessed for tax in India.

In February 2011, the Company received orders of assessment in relation to WNS Global and certain of its other subsidiaries assessed for tax in India for fiscal 2007 from the Indian income tax authorities that could give rise to an estimated $17,447 in additional taxes, including interest of $5,662 in the case of WNS Global, and $8,909 in additional taxes, including interest of $2,818 in the case of certain of its other subsidiaries assessed for tax in India. The Company has contested these orders before higher appellate tax authorities. In April 2011, the Indian income tax authorities granted the Company a stay of demand in respect of an estimated $13,491 in additional taxes in the case of WNS Global after adjusting for the refund due to WNS Global for prior years which amounted to $2,542, rectification of the assessment order which amounted to $802 and taxes that have been paid by WNS Global which amounted to $612. Following the grant of the stay of demand, the Company paid an additional tax of $153.

In October 2011, the Company received a notice from the Indian income tax authorities revoking the stay of demand issued in respect of the assessment orders relating to WNS Global for fiscal 2007, and demanding payment of the pending tax amount. After consultation with its tax advisors, the Company has filed a writ petition with the Bombay High Court, requesting for a stay of demand. The Company has contested the assessment orders from the Indian tax authorities for fiscal 2007 before the higher appellate tax authorities, and intends to contest such notice as well. The Company believes that as this notice is merely a revocation of the stay on the previous assessment orders and not a new assessment order, it will not materially affect the Company s financial position.

Based on certain favorable decision from appellate authorities in previous years, certain legal opinions from counsel and after consultation with the Indian tax advisors, the Company believes that the chances of the aforementioned assessments, upon challenge, being sustained at the higher appellate authorities are remote and the Company intends to vigorously dispute the assessments and orders. The Company has deposited a small portion of the disputed amount

with the tax authorities and may be required to deposit the remaining portion of the disputed amount with the tax authorities pending final resolution of the respective matter.

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On March 21, 2009, the Company received an order from the Indian service tax authority, demanding $7,070 of service tax and related penalty for the period from March 1, 2003 to January 31, 2005. The assessment order alleges that service tax is payable in India on BPO services provided by the Company to clients based abroad as the export proceeds are repatriated outside India by the Company. The Company has filed an appeal to the appellate tribunal against the assessment order and the appeal is currently pending. After consultation with the Indian tax advisors, the Company believes the chances that the assessment would be upheld against it are remote. The Company intends to continue to vigorously dispute the assessment.

17. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30,		Six months ended September 30,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Profit	$ 3,428	$ 5,985	$ 4,087	$ 150
Denominator:				
Basic weighted average ordinary shares outstanding	44,543,249	44,253,774	44,506,899	44,117,597
Dilutive impact of equivalent stock options and RSUs	1,070,919	882,006	1,144,940	960,550
Diluted weighted average ordinary shares outstanding	45,614,168	45,135,780	45,651,839	45,078,147

The computation of earnings per ordinary share (EPS) was determined by dividing profit by the weighted average ordinary shares outstanding during the respective periods.

The Company excludes options with exercise price that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. In the three months and six months period ended September 30, 2011, the Company excluded from the calculation of diluted EPS options to purchase 890,148 and 911,148 shares, respectively.

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18. Subsidiaries

The following is a list of the Company s subsidiaries as at September 30, 2011:

S/No.	Name of subsidiary	Place of incorporation
1.	WNS Global Services Netherlands Cooperative U.A.	The Netherlands
2.	WNS North America Inc.	Delaware, USA
3.	WNS Global Services (UK) Limited	United Kingdom
4.	Business Applications Associates Limited	United Kingdom
5.	WNS (Mauritius) Limited	Mauritius
6.	WNS Global Services (Romania) S.R.L.	Romania
7.	WNS Philippines Inc. (1)	Philippines
8.	WNS Global Services Philippines, Inc.	Philippines
9.	WNS Business Consulting Services Private Limited	India
10.	WNS Workflow Technologies Limited	United Kingdom
11.	Accidents Happen Assistance Limited	United Kingdom
12.	Baizan International Software Technology (Beijing) Co. Limited	China
13.	WNS Capital Investment Limited	Mauritius
14.	WNS Global Services (Private) Limited	Sri Lanka
15.	WNS Customer Solutions (Singapore) Private Limited	Singapore
16.	WNS Customer Solutions (Private) Limited	Sri Lanka
17.	WNS Global Services Private Limited	India
18.	WNS BPO Services Costa Rica, S.A.	Costa Rica
19.	WNS Global Services (Australia) Pty Limited	Australia
20.	WNS Global FZE	United Arab Emirates

All the above subsidiaries are held by the Company directly or indirectly for the entire shareholding of 100% except WNS Philippines Inc. as discussed in note (1) below;

Note:

(1) WNS Philippines Inc. is a joint venture company set up between the WNS Global Services Netherlands Cooperative U.A. (the Co-op) and ACS. ACS has assigned its rights and obligations under the joint venture agreement in favor of its holding company Paxys, Inc. The Co-op has a 65% ownership interest in WNS Philippines Inc.

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19. Operating segments

The Company has several operating segments based on a mix of industry and the types of services. The composition and organization of these operating segments currently is designed in such a way that the back office shared processes, i.e. the horizontal structure, delivers service to industry specific back office and front office processes i.e. the vertical structure. These structures represent matrix form of organization structure, accordingly operating segments have been determined based on core principle of segments reporting in accordance with IFRS 8 *Operating segments* (IFRS 8). These operating segments include travel, insurance, banking and financial services, healthcare, utilities, retail and consumer products groups, auto claims and others. The Company believes that the business process outsourcing services that it provides to customers in industries other than auto claims such as travel, insurance, banking and financial services, healthcare, utilities, retail and consumer products groups and others are similar in terms of services, service delivery methods, use of technology, and long-term gross profit and hence meet the aggregation criteria in accordance with IFRS 8. WNS Assistance and AHA (WNS Auto Claims BPO), which provide automobile claims handling services, do not meet the aggregation criteria. Accordingly, the Company has determined that it has two reportable segments WNS Global BPO and WNS Auto Claims BPO .

The Chief Operating Decision Maker (CODM) has been identified as the Group Chief Executive Officer. The CODM evaluates the Company s performance and allocates resources based on revenue growth of vertical structure.

In order to provide accident management services, the Company arranges for the repair through a network of repair centers. Repair costs paid to automobile repair centers are invoiced to customers and recognized as revenue. The Company uses revenue less repair payments for Fault repairs as a primary measure to allocate resources and measure segment performance. For Non-fault repairs , revenue including repair payments is used as a primary measure. As the Company provides a consolidated suite of accident management services including credit hire and credit repair for its Non-fault repairs business, the Company believes that measurement of that line of business has to be on a basis that includes repair payments in revenue. The Company believes that the presentation of this measure in the segmental information provides useful information for investors regarding the segment s financial performance. The presentation of this information is not meant to be considered in isolation or as a substitute for the Company s financial results prepared in accordance with IFRS.

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	Three months ended September 30, 2011			
	WNS Global BPO	WNS Auto Claims BPO	Inter segments*	Total
Revenue from external customers	$ 92,029	$ 25,869	$	$ 117,898
Segment revenue	$ 92,210	$ 25,869	$ (181)	$ 117,898
Payments to repair centers		17,708		17,708
Revenue less repair payments	92,210	8,161	(181)	100,190
Depreciation	3,732	396		4,128
Other costs	73,692	7,091	(181)	80,602
Segment operating profit	14,786	674		15,460
Other expense (income), net	143	(55)		88
Finance expense	931			931
Segment profit before income taxes	13,712	729		14,441
Provision for income taxes	2,335	69		2,404
Segment profit	11,377	660		12,037
Amortization of intangible assets				7,548
Share based compensation expense				1,061
Profit				$ 3,428
Addition to non-current assets	$ 5,901	$ 309	$	$ 6,210
Total assets, net of elimination	365,983	104,996		470,979
Total liabilities, net of elimination	$ 190,150	$ 42,300	$	$ 232,450

* Transactions between inter segments represent invoices raised by WNS Global BPO on WNS Auto Claims BPO on an arm s length basis for business process outsourcing services rendered by the former to latter.

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	Three months ended September 30, 2010			
	WNS Global BPO	**WNS Auto Claims BPO**	**Inter segments***	**Total**
Revenue from external customers	$ 83,736	$ 70,423	$	$ 154,159
Segment revenue	$ 83,941	$ 70,423	$ (205)	$ 154,159
Payments to repair centers		61,049		61,049
Revenue less repair payments	83,941	9,374	(205)	93,110
Depreciation	4,013	336		4,349
Other costs	65,932	6,413	(205)	72,140
Segment operating profit	13,996	2,625		16,621
Other income, net	(124)	(42)		(166)
Finance expense	1,539	3		1,542
Segment profit before income taxes	12,581	2,664		15,245
Provision for income taxes	39	703		742
Segment profit	12,542	1,961		14,503
Amortization of intangible assets				7,922
Share based compensation expense				596
Profit				$ 5,985
Addition to non-current assets	$ 3,216	$ 813	$	$ 4,029
Total assets, net of elimination	412,755	110,384		523,139
Total liabilities, net of elimination	$ 225,232	$ 50,862	$	$ 276,094

* Transactions between inter segments represent invoices raised by WNS Global BPO on WNS Auto Claims BPO on an arm s length basis for business process outsourcing services rendered by the former to latter.

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	Six months ended September 30, 2011			
	WNS Global BPO	WNS Auto Claims BPO	Inter segments*	Total
Revenue from external customers	$ 181,473	$ 62,088	$	$ 243,561
Segment revenue	$ 181,855	$ 62,088	$ (382)	$ 243,561
Payments to repair centers		45,532		45,532
Revenue less repair payments	181,855	16,556	(382)	198,029
Depreciation	7,412	783		8,195
Other costs	147,035	14,056	(382)	160,709
Segment operating profit	27,408	1,717		29,125
Other income, net	(34)	(82)		(116)
Finance expense	2,107			2,107
Segment profit before income taxes	25,335	1,799		27,134
Provision for income taxes	4,887	246		5,133
Segment profit	20,448	1,553		22,001
Amortization of intangible assets				15,388
Share based compensation expense				2,526
Profit				$ 4,087
Addition to non-current assets	$ 12,138	$ 824	$	$ 12,962
Total assets, net of elimination	365,983	104,996		470,979
Total liabilities, net of elimination	$ 190,150	$ 42,300	$	$ 232,450

* Transactions between inter segments represent invoices raised by WNS Global BPO on WNS Auto Claims BPO on an arm s length basis for business process outsourcing services rendered by the former to latter.

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	Six months ended September 30, 2010			
	WNS Global BPO	WNS Auto Claims BPO	Inter segments*	Total
Revenue from external customers	$ 163,741	$ 140,382	$	$ 304,123
Segment revenue	$ 164,149	$ 140,382	$ (408)	$ 304,123
Payments to repair centers		121,705		121,705
Revenue less repair payments	164,149	18,677	(408)	182,418
Depreciation	8,626	601		9,227
Other costs	132,790	13,049	(408)	145,431
Segment operating profit	22,733	5,027		27,760
Other income, net	(183)	(158)		(341)
Finance expense	9,083	3		9,086
Segment profit before income taxes	13,833	5,182		19,015
Provision for income taxes	1,159	1,165		2,324
Segment profit	12,674	4,017		16,691
Amortization of intangible assets				15,902
Share based compensation expense				639
Profit				$ 150
Addition to non-current assets	$ 5,426	$ 1,353	$	$ 6,779
Total assets, net of elimination	412,755	110,384		523,139
Total liabilities, net of elimination	$ 225,232	$ 50,862	$	$ 276,094

* Transactions between inter segments represent invoices raised by WNS Global BPO on WNS Auto Claims BPO on an arm s length basis for business process outsourcing services rendered by the former to latter.

The Company s external revenue by geographic area is as follows;

External Revenue

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
UK	$ 71,227	$ 92,906	$ 152,252	$ 182,893
North America	37,698	34,885	73,925	69,922
Europe (excluding UK)	6,558	24,907	13,211	48,415
Rest of the World	2,415	1,461	4,173	2,893
Total	**$ 117,898**	**$ 154,159**	**$ 243,561**	**$ 304,123**

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20. Commitment and Contingencies

Bank guarantees and others

Certain subsidiaries in India and Romania hold bank guarantees aggregating $483 and $483 as at September 30, 2011 and March 31, 2011, respectively. These guarantees have a remaining expiry term ranging from one to five years. Restricted time deposits placed with bankers as security for guarantees given by them to regulatory authorities in India and lessors in Romania, aggregating to $296 and $194 at September 30, 2011 and March 31, 2011, respectively, are included in other current assets. These deposits represent cash collateral against bank guarantees issued by the banks on behalf of the Company to third parties.

Contingencies

In the ordinary course of business, the Company is involved in lawsuits, claims and administrative proceedings. While uncertainties are inherent in the final outcome of these matters, the Company believes, after consultation with counsel, that the disposition of these proceedings will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

21. Joint venture with ACS

In April 2008, the Company formed a joint venture, WNS Philippines, Inc., with Advanced Contact Solutions, Inc. (ACS), a BPO services and customer care provider, in the Philippines. ACS has assigned its rights and obligations under the joint venture agreement in favor of its holding company Paxys. This joint venture is majority owned by the Company (65%) and the balance by Paxys. This joint venture offers contact center services to global clients across industries. This joint venture enables the Company to bring a large scale talent pool to help solve the business challenges of its clients while diversifying the geographic concentration of delivery. Pursuant to the joint venture agreement, the Company has a call option to acquire from Paxys the remaining shares owned by Paxys and Paxys has a put option to sell all of its shareholding in the joint venture to the Company, upon the occurrence of certain conditions, as set forth in the joint venture agreement, or after August 6, 2012.

As the Company always had the risk and rewards for the ownership of the joint venture and with the existence of put option, the Company has a contractual obligation to deliver cash, hence the noncontrolling interest is classified as liability in accordance with IAS 32. The put and call option would trigger on expiry of four years from the date of commencement of operations or occurrence of non-performance event i.e. six months of continuous losses by the joint venture.

As at the Transition Date, the Company had done the probability weighted assessment of possible outcomes of the put and call options under the various conditions of contract and recorded its obligation towards the put option liability. Accordingly, a liability had been recorded based on the obligation existing at the Transition Date based on the present value of the put option with the initial recognition to equity amounting to $1,676.

At every period end, the Company has re-measured the put liability. As at June 30, 2011, the non-performance event has been triggered as the joint venture has made six months of continuous losses for the period January 2011 to June 2011. The Company had evaluated the trigger of non-performance event and the consequent put and call option liability and concluded that the liability recorded in the books of accounts is adequate as at June 30, 2011.

In the three months ended September 30, 2011, the joint venture has continued to incur losses. As a result, the Company and Paxys, after discussions, have decided to mutually terminate the joint venture. Accordingly, the Company s Board of Directors, in its meeting held in September 2011, has determined that its call option has become exercisable as a result of the non-performance event being triggered in the prior quarter and approved the exercise of the call option. Accordingly, the Company has shared its intention to exercise the call option with Paxys.

As of September 30, 2011, the Company has not yet exercised its call option but has assessed that the event of the Company exercising the call option is highly probable as against Paxys exercising their put option and since the Company anticipates that there will be an outflow of cash in connection with the exercise of the call option in the near future, the liability is re-measured at the fair value of the call option as at September 30, 2011. Accordingly, the

Company has recorded an additional charge of $346 towards the interest payable and increased its liability from $1,676 (as measured based on put liability) to $2,033 as at September 30, 2011.

Part II MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. We urge you to carefully review and consider the various disclosures made by us in this report and in our other SEC filings, including our annual report on Form 20-F for our fiscal year ended March 31, 2011. Some of the statements in the following discussion are forward-looking statements. See Special note regarding forward-looking statements.

Overview

We are a leading provider of offshore business process outsourcing, or BPO, services. We provide comprehensive data, voice and analytical services to our clients, which are typically companies located in the Asia Pacific regions, Europe and North America.

Although we typically enter into long-term contractual arrangements with our clients, these contracts can usually be terminated with or without cause by our clients and often with short notice periods. Nevertheless, our client relationships tend to be long-term in nature given the scale and complexity of the services we provide coupled with risks and costs associated with switching processes in-house or to other service providers. We structure each contract to meet our clients specific business requirements and our target rate of return over the life of the contract. In addition, since the sales cycle for offshore business process outsourcing is long and complex, it is often difficult to predict the timing of new client engagements. As a result, we may experience fluctuations in growth rates and profitability from quarter to quarter, depending on the timing and nature of new contracts. Our operating results may also differ significantly from quarter to quarter due to seasonal changes in the operations of our clients. For example, our clients in the travel and leisure industry typically experience seasonal changes in their operations due to the holiday travel season in the third quarter of each fiscal year, as a result of which we may experience seasonal fluctuations in our Travel and leisure vertical during such period. Our focus, however, is on deepening our client relationships and maximizing shareholder value over the life of a client s relationship with us.

Our revenue is generated primarily from providing business process outsourcing services. We have two reportable segments for financial statement reporting purposes WNS Global BPO and WNS Auto Claims BPO. In our WNS Auto Claims BPO segment, we provide both fault and non fault repairs. For fault repairs, we provide claims handling and accident management services, where we arrange for automobile repairs through a network of third party repair centers. In our accident management services, where we act as the principal in our dealings with the third party repair centers and our clients, the amounts which we invoice to our clients for payments made by us to third party repair centers are reported as revenue. Where we are not the principal in providing the services, we record revenue from repair services net of repair cost. See Note 13 of the unaudited condensed consolidated financial statements included elsewhere in this report. Since we wholly subcontract the repairs to the repair centers, we evaluate our financial performance based on revenue less repair payments to third party repair centers which is a non-GAAP measure. We believe that revenue less repair payments for fault repairs reflects more accurately the value addition of the business process outsourcing services that we directly provide to our clients. For non fault repairs, revenue including repair payments is used as a primary measure to allocate resources and measure operating performance. As we provide a consolidated suite of accident management services including credit hire and credit repair for our non fault repairs business, we believe that measurement of that line of business has to be on a basis that includes repair payments in revenue. Revenue less repair payments is a non-GAAP measure which is calculated as revenue less payments to repair centers. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with IFRS. Our revenue less repair payments may not be comparable to similarly titled measures reported by other companies due to potential differences in the method of calculation.

The following table reconciles our revenue (a GAAP measure) to revenue less repair payments (a non-GAAP measure) for the periods indicated:

(US $ in million)

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Revenue	117.9	154.2	243.6	304.1
Less: Payments to repair centers	17.7	61.1	45.5	121.7
Revenue less repair payments	100.2	93.1	198.0	182.4

Global Market and Economic Conditions

In Asia, Europe and the United States, market and economic conditions have been challenging with tighter credit conditions and slower growth since fiscal 2009. Since fiscal 2009 and continuing into fiscal 2012, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for the economy globally. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have, since fiscal 2009 and continuing into fiscal 2012, contributed to extreme volatility.

These economic conditions may affect our business in a number of ways. The general level of economic activity, such as decreases in business and consumer spending, could result in a decrease in demand for our services, thus reducing our revenue. The cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Continued turbulence in the US and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. If these market conditions continue or worsen, they may limit our ability to access financing or increase our cost of financing to meet liquidity needs, and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, resulting in adverse effects on our financial condition and results of operations. Furthermore, a weakening of the rate of exchange for the US dollar or the pound sterling (in which our revenue is principally denominated) against the Indian rupee (in which a significant portion of our costs are denominated) also adversely affects our results. Fluctuations between the pound sterling or the Indian rupee and the US dollar also expose us to translation risk when transactions denominated in pound sterling or Indian rupees are translated to US dollars, our reporting currency. For example, the average pound sterling/US dollar exchange rate for fiscal 2011 depreciated 2.6% as compared to the average exchange rate for fiscal 2010, which adversely impacted our results of operations. Uncertainty about current global economic conditions could also continue to increase the volatility of our share price. We cannot predict the timing or duration of the economic slowdown or the timing or strength of a subsequent economic recovery generally or in our targeted industries, including the travel and leisure, and insurance industries. If macroeconomic conditions worsens or the current global economic condition continues for a prolonged period of time, we are not able to predict the impact such worsening conditions will have on our targeted industries in general, and our results of operations specifically.

Revenue

We generate revenue by providing business process outsourcing services to our clients.

(US $ in million)

	Three months ended September 30,		Change		Six months ended September 30,		Change	
	2011	2010	$	%	2011	2010	$	%
Revenue	117.9	154.2	(36.3)	(23.5)%	243.6	304.1	(60.6)	(19.9)%
Revenue less repair payments	100.2	93.1	7.1	7.6%	198.0	182.4	15.6	8.6%

During the six months ended September 30, 2011, we re-negotiated contracts with certain of our clients and repair centers in the Auto Claims business, whereby the significant risk of services and the credit risk are now borne by these

clients instead of us. As a result of these changes, we no longer account for the amount received from these clients for payments to repair centers and the payments made to repair centers for cases referred by these clients as revenue and cost of revenue, respectively, resulting in lower revenue and cost of revenue. The contract re-negotiation process is ongoing and aimed at simplifying our accounting requirements.

We believe that we have been successful in achieving growth in our revenue less repair payment due to a number of factors, including our understanding of our clients industries, our focus on operational excellence and our world-class management team with significant experience in the global outsourcing industry. We have been successful in adding new clients who are diversified across industries and geographies to our existing large client base.

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Our Contracts

We provide our services under contracts with our clients, the majority of which have terms ranging between three and eight years, with some being rolling contracts with no end dates. Typically, these contracts can be terminated by our clients with or without cause and with notice periods ranging from three to six months. However, we tend to have long-term relationships with our clients given the complex and comprehensive nature of the business processes executed by us, coupled with the switching costs and risks associated with relocating these processes in-house or to other service providers.

Each client contract has different terms and conditions based on the scope of services to be delivered and the requirements of that client. Occasionally, we may incur significant costs on certain contracts in the early stages of implementation, with the expectation that these costs will be recouped over the life of the contract to achieve our targeted returns. Each client contract has corresponding service level agreements that define certain operational metrics based on which our performance is measured. Some of our contracts specify penalties or damages payable by us in the event of failure to meet certain key service level standards within an agreed upon time frame.

When we are engaged by a client, we typically transfer that client s processes to our delivery centers over a two to six month period. This transfer process is subject to a number of potential delays. Therefore, we may not recognize significant revenue until several months after commencing a client engagement.

In the WNS Global BPO segment, we charge for our services primarily based on three pricing models per full-time-equivalent; per transaction; or cost-plus as follows:

- per full-time equivalent arrangements typically involve billings based on the number of full-time employees (or equivalent) deployed on the execution of the business process outsourced;

- per transaction arrangements typically involve billings based on the number of transactions processed (such as the number of e-mail responses, or airline coupons or insurance claims processed); or

- cost-plus arrangements typically involve billing the contractually agreed direct and indirect costs and a fee based on the number of employees deployed under the arrangement.

Apart from the above-mentioned three primary pricing methods, a small portion of our revenue is comprised of reimbursements of out-of-pocket expenses incurred by us in providing services to our clients.

Our prior contracts with a major client, AVIVA, granted Aviva Global the option to require us to transfer our facilities at Pune and Sri Lanka to Aviva Global. The Sri Lanka facility was transferred at book value and did not result in a material gain or loss, although we lost the revenue generated by the facility upon our transfer of the facility to Aviva Global. With the transaction that we entered into with AVIVA in July 2008 described below, we have, through the acquisition of Aviva Global, resumed control of the Sri Lanka facility and we have continued to retain ownership of the Pune facility and we expect these facilities to continue to generate revenue for us under the AVIVA master services agreement described below. However we may in the future enter into contracts with other clients with similar call options that may result in the loss of revenue that may have a material impact on our business, results of operations, financial condition and cash flows, particularly during the quarter in which the option takes effect.

In July 2008, we entered into a transaction with AVIVA consisting of a share sale and purchase agreement with AVIVA and a master services agreement with AVIVA MS. Pursuant to the share sale and purchase agreement with AVIVA, we acquired all the shares of Aviva Global in July 2008.

Pursuant to the master services agreement with AVIVA MS, or the AVIVA master services agreement, we provide BPO services to AVIVA s UK and Canadian businesses for a term of eight years and four months. Under the terms of the agreement, we have agreed to provide a comprehensive spectrum of life and general insurance processing functions to AVIVA, including policy administration and settlement, along with finance and accounting, customer care and other support services. In addition, we have the exclusive right to provide certain services such as finance and accounting, insurance back-office, customer interaction and analytics services to AVIVA s UK and Canadian businesses for the first five years, subject to the rights and obligations of the AVIVA group under their existing contracts with other providers. In March 2009, we entered into a variation deed to the AVIVA master services agreement pursuant to which we commenced provision of services to AVIVA s Irish subsidiary, Hibernian Aviva

Direct Limited, and certain of its affiliates. AVIVA s Canadian business has ceased to require our BPO services and we are currently providing BPO services to AVIVA s UK business and AVIVA s Irish subsidiary, Hibernian Aviva Direct Limited, and certain of its affiliates.

Our clients customarily provide one to three month rolling forecasts of their service requirements. Our contracts with our clients do not generally provide for a committed minimum volume of business or committed amounts of revenue, except for our contract with one of our top five clients based on revenue less repair payments in fiscal 2010, and the AVIVA master services agreement that we entered into in July 2008 as described above. AVIVA MS has agreed to provide a minimum volume of business, or minimum volume commitment, to us during the term of the contract. The minimum volume commitment is calculated as 3,000 billable full-time employees, where one billable full time employee is the equivalent of a production employee engaged by us to perform our obligations under the contract for one working day of at least nine hours for 250 days a year. In August 2009, we entered into a variation agreement to the AVIVA master services agreement pursuant to which AVIVA MS agreed to increase the minimum volume commitment from the current 3,000 billable full time employees to 3,300 billable full time employees for a period of 17 months from March 1, 2010 to July 31, 2011 and to 3,250 billable full time employees for a period of six months from August 1, 2011 to January 31, 2012. The minimum volume commitment will revert to 3,000 billable full time employees after January 31, 2012 for the remaining term of the AVIVA master services agreement. In the event the mean average monthly volume of business in any rolling three-month period does not reach the minimum volume commitment, AVIVA MS has agreed to pay us a minimum commitment fee as liquidated damages. Notwithstanding the minimum volume commitment, there are termination at will provisions which permit AVIVA MS to terminate the AVIVA master services agreement without cause at any time after the expiry of 24 months from October 9, 2008, except in the case of the Chennai facility which was transferred to WNS Global Singapore in July 2008, at any time after expiry of 24 months from September 19, 2008, and in the case of the Pune facility which was transferred to WNS Global Singapore in August 2008, at any time after expiry of 24 months from October 10, 2008, in each case, with six months notice upon payment of a termination fee. The annual minimum volume commitment under this contract was met in fiscal 2011.

Under the terms of our agreement with one of our top five clients, we are the exclusive provider of certain key services from delivery locations outside of the US, including customer service and ticketing support for the client. Our earlier agreement with this client was due to expire in December 2010. We re-negotiated this agreement and entered into a new agreement with the client on December 31, 2009. The new agreement replaced our earlier agreement and became effective on April 1, 2010 and expires in December 2015. Under the earlier agreement with this client, we were entitled to charge premium pricing because we had absorbed the initial transition cost in 2004. That premium pricing is no longer available in the new contract with this client. The early termination of the old agreement entitled us to a payment by the client of a termination fee of $5.4 million which was received on April 1, 2010. As the termination fee was related to a renewal of our agreement with the client, we have determined that the recognition of the termination fee as revenue will be deferred over the term of the new agreement (i.e., over the period from April 1, 2010 to December 31, 2015).

FMFC, a US mortgage lender, was one of our major clients from November 2005 to August 2007. FMFC was a major client of Trinity Partners which we acquired in November 2005 from the First Magnus Group. In August 2007, FMFC filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code. For fiscal 2007, FMFC accounted for 4.3% and 6.8% of our revenue and revenue less repair payments, respectively. Contractually, FMFC was obligated to provide us with annual minimum revenue, or pay the shortfall, through fiscal 2011. We have filed claims in FMFC s Chapter 11 case both for the payment of unpaid invoices for services rendered to FMFC before FMFC filed for Chapter 11 bankruptcy, for our entitlement under FMFC s annual minimum revenue commitment, and for administrative expenses. The amount of outstanding claims filed totaled $15.6 million. In a judgment passed by the bankruptcy court in 2009, the claim filed by WNS amounting to $11.7 million on account of loss of profit from the remainder of the minimum revenue commitment has been denied. We filed an appeal against this order in the bankruptcy appellate court, Tucson, Arizona. On August 31, 2010, the appellate court passed judgment in our favor thereby reversing the orders passed by the bankruptcy court and remanded the matter back to the bankruptcy court. In the same matter, the liquidating trustee, appointed by the bankruptcy court, has filed a petition against us claiming a refund of payments made by FMFC to us during the 90 days period immediately prior to its filing of the bankruptcy petition. FMFC paid a sum of $4 million during the period from May 22, 2007 through August 21, 2007. All these payments were made in the ordinary course of business and were against the undisputed invoices of the services

provided by us to FMFC during the relevant period. On August 31, 2010, we entered into a settlement agreement with the liquidating trustee pursuant to which the liquidating trustee agreed to allow our claims to the extent of $11.8 million and dismissal of the liquidating trustee s claim of $4 million for payments made by FMFC to us and we agreed to make a settlement payment of $50,000 to the liquidating trustee. On October 3, 2010, the bankruptcy court approved the settlement agreement and on October 13, 2010 we made the settlement payment of $50,000 to the liquidating trustee. At this stage we cannot confirm the amount which we can realize from the allowed claims. In fiscal 2008, we had provided an allowance for doubtful accounts for the entire amount of accounts receivable from FMFC.

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In our WNS Auto Claims BPO segment, we earn revenue from claims handling and accident management services. For claims handling, we charge on a per claim basis or a fixed fee per vehicle over a contract period. For automobile accident management services, where we arrange for the repairs through a network of repair centers that we have established, we invoice the client for the amount of the repair. When we direct a vehicle to a specific repair center, we receive a referral fee from that repair center. We also provide consolidated suite of services towards accident management including credit hire and credit repair for non-fault repairs business. Overall, we believe that we have established a sustainable business model which offers revenue visibility over a substantial portion of our business. We have done so by:

- developing a broad client base which has resulted in limited reliance on any particular client;
- seeking to balance our revenue base by targeting industries that offer significant offshore outsourcing potential;
- addressing the largest markets for offshore business process outsourcing services, which provide geographic diversity across our client base; and
- focusing our service mix on diverse data, voice and analytical processes, resulting in enhanced client retention.

Expenses

The majority of our expenses comprise cost of revenue and operating expenses. The key components of our cost of revenue are payments to repair centers, employee costs, facilities costs, depreciation and legal and professional costs. Our operating expenses include selling and marketing expenses, general and administrative expenses, foreign exchange gains and losses and amortization of intangible assets. Our non-operating expenses include finance expenses, other income and other expenses.

Cost of revenue

Our WNS Auto Claims BPO segment includes automobile accident management services, where we arrange for repairs through a network of repair centers. The payments to repair centers represent the largest component of cost of revenue. The value of these payments in any given period is primarily driven by the volume of accidents and the amount of the repair costs related to such accidents.

Employee costs are also a significant component of cost of revenue. In addition to employee salaries, employee costs include costs related to recruitment, training and retention.

Our facilities costs comprise lease rentals, facilities management and telecommunication network cost. Most of our leases for our facilities are long-term agreements and have escalation clauses which provide for increases in rent at periodic intervals commencing between three and five years from the start of the lease. Most of these agreements have clauses that cap escalation of lease rentals.

Selling and marketing expenses

Our selling and marketing expenses primarily comprise employee costs for sales and marketing personnel, travel expenses, legal and professional fees, share-based compensation expense, brand building expenses and other general expenses relating to selling and marketing.

General and administrative expenses

Our general and administrative expenses primarily comprise employee costs for senior management and other support personnel, travel expenses, legal and professional fees, share-based compensation expense and other general expenses not related to cost of revenue and selling and marketing.

Foreign exchange gains or losses, net

Foreign exchange gains or losses, net includes:

- marked to market gains or losses on derivative instruments;
- foreign currency exchange gains or losses on translation of other assets and liabilities; and
- unrealized foreign currency exchange gains or losses on revaluation of other assets and liabilities.

Amortization of intangible assets

Amortization of intangible assets is associated with our acquisitions of Marketics, in May 2007, Flovate in June 2007, Accidents Happen Assistance Limited, or AHA (formerly known as Call 24-7 Limited, or Call 24-7) in April 2008, BizAps in June 2008 and Aviva Global in July 2008.

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Finance expense

Finance expense primarily relates to interest charges payable on our term loan and short-term borrowings.

Other income and expense, net

Other income and expense, net comprise interest income and income or loss from sale of fixed assets and other miscellaneous expenses.

Operating Data

The following table presents certain operating data as of the dates indicated:

	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Total head count	21,565	21,808	21,523	21,213	21,460
Built up seats[(1)]	17,915	16,573	16,278	16,320	16,127
Used seats[(1)]	13,336	13,450	13,256	13,235	13,149

Note:

(1) Built up seats refer to the total number of production seats (excluding support functions like Finance, Human Resource and Administration) that are set up in any premises. Used seats refer to the number of built up seats that are being used by employees. The remainder would be termed vacant seats. The vacant seats would get converted into used seats when we acquire a new client or increase headcount.

Results of Operations

The following table sets forth certain financial information as a percentage of revenue and revenue less repair payments:

	As a percentage of							
	Revenue Three months ended September 30,		Revenue less repair payments Three months ended September 30,		Revenue Six months ended September 30,		Revenue less repair payments Six months ended September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Cost of revenue	72.3%	78.1%	67.4%	63.7%	74.2%	79.9%	68.2%	66.6%
Gross profit	27.7%	21.9%	32.6%	36.3%	25.8%	20.1%	31.8%	33.4%
Operating expenses:								
Selling and marketing expenses	5.9%	4.1%	7.0%	6.9%	5.6%	3.8%	6.9%	6.3%
General and administrative expenses	11.1%	8.4%	13.1%	13.9%	10.6%	8.9%	13.1%	14.9%
Foreign exchange gains, net	(1.6)%	(1.1)%	(1.8)%	(1.8)%	(1.3)%	(1.5)%	(1.6)%	(2.6)%
Amortization of intangible assets	6.4%	5.1%	7.5%	8.5%	6.3%	5.2%	7.8%	8.7%
Operating profit	5.8%	5.3%	6.8%	8.7%	4.6%	3.7%	5.7%	6.2%
Other (income) expense, net	0.1%	(0.1)%	0.1%	(0.2)%	0.0%	(0.1)%	(0.1)%	(0.2)%
Finance expense	0.8%	1.0%	0.9%	1.7%	0.9%	3.0%	1.1%	5.0%

Provision for income taxes	2.0%	0.5%	2.4%	0.8%	2.1%	0.8%	2.6%	1.3%
Profit	2.9%	3.9%	3.4%	6.4%	1.7%	0.0%	2.1%	0.1%

The following table reconciles revenue (a GAAP measure) to revenue less repair payments (a non-GAAP measure) and sets forth payments to repair centers and revenue less repair payments as a percentage of revenue:

(US $ in million)

	Three months ended September 30,				**Six months ended September 30,**			
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Revenue	$ 117.9	$ 154.2	100%	100%	$ 243.6	$ 304.1	100%	100%
Less: Payments to repair centers	17.7	61.1	15%	40%	45.5	121.7	19%	40%
Revenue less repair payments	$ 100.2	$ 93.1	85%	60%	$ 198.0	$ 182.4	81%	60%

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The following table presents our results of operations for the periods indicated:

(US $ in million)

	Three months ended,		Six months ended,	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenue	$ 117.9	$ 154.2	$ 243.6	$ 304.1
Cost of revenue[1]	85.2	120.4	180.6	243.1
Gross profit	32.7	33.8	62.9	61.0
Operating expenses:				
Selling and marketing expenses[2]	7.0	6.4	13.6	11.4
General and administrative expenses[3]	13.1	13.0	25.9	27.1
Foreign exchange gains, net	(1.8)	(1.6)	(3.2)	(4.7)
Amortization of intangible assets	7.5	7.9	15.4	15.9
Operating profit	6.9	8.1	11.2	11.2
Other (income) expense, net	0.1	(0.2)	(0.1)	(0.3)
Finance expense	0.9	1.5	2.1	9.1
Provision for income taxes	2.4	0.7	5.1	2.3
Profit	$ 3.4	$ 6.0	$ 4.1	$ 0.1

Notes:

(1) Includes share-based compensation expense of $0.2 million and $0.5 million for the three and six months ended September 30, 2011, respectively, and $0.1 million for each of the three and six months ended September 30, 2010.

(2) Includes share-based compensation expense of $0.1 million and $0.2 million for the three and six months ended September 30, 2011, respectively, and $0.0 million for each of the three and six months ended September 30, 2010.

(3) Includes share-based compensation expense of $0.8 million and $1.8 million for the three and six months ended September 30, 2011, respectively, and $0.4 million and $0.5 million for the three and six months ended September 30, 2010, respectively.

Results for three months ended September 30, 2011 compared to the three months ended September 30, 2010

Revenue

The following table sets forth our revenue and percentage change in revenue for the periods indicated:

(US $ in million)

	Three months ended September 30,			
	2011	2010	Change	% Changes
Revenue	$ 117.9	$ 154.2	$ (36.3)	(23.5)%

The decrease in revenue of $36.3 million was primarily attributable to a decrease in revenue from existing clients of $40.2 million partially offset by revenue from new clients of $4.0 million. The decrease in revenue from existing clients was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the amounts received from these clients as revenue, resulting in lower revenue.

Revenue by Geography

The following table sets forth the composition of our revenue based on the location of our clients in our key geographies for the periods indicated:

(US $ in million)

	Revenue		As a percentage of revenue	
	Three months ended September 30,			
	2011	2010	2011	2010
UK	$ 71.2	$ 92.9	60.4%	60.3%
North America (primarily the US)	$ 37.7	$ 34.9	32.0%	22.6%
Europe (excluding the UK)	$ 6.6	$ 24.9	5.6%	16.2%
Rest of World	$ 2.4	$ 1.5	2.0%	0.9%

The decrease in revenue from the UK and Europe region was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the amounts received from these clients as revenue, resulting in lower revenue.

Revenue less Repair Payments

The following table sets forth our revenue less repair payment and percentage change in revenue less repair payments for the periods indicated:

(US $ in million)

	Three months ended September 30,			
	2011	2010	Change	% Changes
Revenue less repair payments	$ 100.2	$ 93.1	$ 7.1	7.6%

The increase in revenue less repair payments of $7.1 million was primarily attributable to an increase in revenue less repair payments from existing clients of $3.0 million and revenue less repair payments from new clients of $4.1 million. The increase in revenue less repair payments was primarily due to higher volumes in our Insurance, Consulting and professional services, Travel and leisure, Diversified businesses and Utilities verticals and an appreciation of the pound sterling against the US dollar.

Revenue less Repair Payments by Geography

The following table sets forth the composition of our revenue less repair payments based on the location of our clients in our key geographies for the periods indicated:

(US $ in million)

	Revenue less repair payments		As a percentage of revenue less repair payments	
	Three months ended September 30,			
	2011	2010	2011	2010
UK	$ 53.5	$ 50.0	53.4%	53.7%
North America (primarily the US)	$ 37.7	$ 34.9	37.6%	37.5%
Europe (excluding the UK)	$ 6.6	$ 6.8	6.5%	7.3%
Rest of World	$ 2.4	$ 1.4	2.5%	1.5%

The increase in revenue less repair payments from the UK region was primarily attributable to higher volumes in our Consulting and professional services, Diversified businesses and Insurance verticals, and from the North America

(primarily the US) region was primarily attributable to higher volumes in the Travel and leisure and Insurance verticals.

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Cost of Revenue

The following table sets forth the composition of our cost of revenue for the periods indicated:

(US $ in million)

	Three months ended September 30,		
Cost of revenue	2011	2010	Change
Employee costs	$ 39.9	$ 37.6	$ (2.3)
Repair payments	17.7	61.0	43.3
Facilities costs	14.5	11.1	(3.4)
Depreciation	4.0	4.1	0.1
Legal and professional costs	2.4	2.3	(0.1)
Travel costs	2.7	1.8	(0.9)
Other costs	4.1	2.5	(1.5)
Total cost of revenue	$ 85.2	$ 120.4	$ 35.2
As a percentage of revenue	72.3%	78.1%	

The decrease in repair payments was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the payments made to repair centers for cases referred by this client as cost of revenue, which resulted in lower repair payments. The decrease was partially offset by an increase in employee costs due to an increase in salary and an appreciation of the Indian rupee against the US dollar. The facilities costs are higher by $3.4 million on account of new facilities in Costa Rica, Mumbai, Pune, Gurgaon and Chennai.

Gross Profit

The following table sets forth our gross profit for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Gross profit	$ 32.7	$ 33.8	$ 1.1
As a percentage of revenue	27.7%	21.9%	
As a percentage of revenue less repair payments	32.6%	36.3%	

Gross profit is lower due to an increase in employee cost and facilities cost and an appreciation of the Indian rupee against the US dollar, partially offset by higher revenue less repair payments as discussed above.

Selling and marketing expenses

The following table sets forth the composition of our selling and marketing expenses for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Employee costs	$ 5.6	$ 5.0	$ (0.6)
Other costs	1.4	1.4	0.0
Total selling and marketing expenses	$ 7.0	$ 6.4	$ (0.6)
As a percentage of revenue	5.9%	4.1%	
As a percentage of revenue less repair payments	7.0%	6.9%	

The increase was primarily the result of ongoing investment in the expansion of our sales team, client partner program, and branding and marketing initiatives. We anticipate maintaining a consistent level of investment (as a

percentage of our revenue less repair payments) in support of our growth strategy.

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General and administrative expenses

The following table sets forth the composition of our general and administrative expenses for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Employee costs	$ 9.3	$ 5.9	$ (3.4)
Other costs	3.8	7.1	3.3
Total general and administrative expenses	$ 13.1	$ 13.0	$ (0.1)
As a percentage of revenue	11.1%	8.4%	
As a percentage of revenue less repair payments	13.1%	13.9%	

The increase was primarily on account of an increase in employee costs as a result of higher salary including share based compensation expense of $0.3 million. This increase was partially offset by costs optimization in support functions and better operating leverage resulting in lower costs in legal and professional, facilities and other costs.

Foreign exchange gains, net

The following table sets forth our foreign exchange gains, net for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Foreign exchange gains, net	$ (1.8)	$ (1.6)	$ 0.2

The increase was due to higher unrealized foreign exchange gains on revaluation of assets and liabilities, partially offset by lower foreign exchange loss on account of hedging.

Amortization of intangible asset

The following table sets forth our amortization of intangible assets for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Amortizations of intangible asset	$ 7.5	$ 7.9	$ 0.4

The decrease was primarily due to the lower amortization charge of intangible assets acquired in connection with the acquisition of Flovate in June 2007 and BizAps in June 2008.

Operating profit

The following table sets forth our operating profit for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Operating profit	$ 6.9	$ 8.1	$ (1.3)
As a percentage of revenue	5.8%	5.3%	
As a percentage of revenue less repair payments	6.8%	8.7%	

Operating profit decreased due to lower gross profit as discussed above and higher selling and marketing expenses, partially offset by lower amortization charge of intangible assets.

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Finance Expense

The following table sets forth our finance expense for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Finance expense	$ 0.9	$ 1.5	$ 0.6

The decrease was primarily due to lower interest cost on account of the partial repayment of our term loan.

Other (income) expense, net

The following table sets forth our other income, net for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Other (income) expense, net	$ 0.1	$ (0.2)	$ (0.3)

Provision for income taxes

The following table sets forth our provision for income taxes for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Provision for income taxes	$ 2.4	$ 0.7	$ (1.7)

The increase in income taxes is primarily on account of the expiry of the STPI tax holiday period in India as of April 1,2011.

Profit

The following table sets forth our profit for the periods indicated:

(US $ in million)

	Three months ended September 30,		
	2011	2010	Change
Profit	$ 3.4	$ 6.0	$ (2.6)
As a percentage of revenue	2.9%	3.9%	
As a percentage of revenue less repair payments	3.4%	6.4%	

The decrease in profit was primarily on account of higher employee costs, facilities cost and provision for income taxes as discussed above, partially offset by higher revenue less repair payments and savings from cost management initiatives.

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Results for six months ended September 30, 2011 compared to the six months ended September 30, 2010

Revenue

The following table sets forth our revenue and percentage change in revenue for the periods indicated:

(US $ in million)

	Six months ended September 30,			
	2011	2010	Change	% Changes
Revenue	$ 243.6	$ 304.1	$ 60.6	(19.9)%

The decrease in revenue of $60.6 million was primarily attributable to a decrease in revenue from existing clients of $66.7 million, partially offset by revenue from new clients of $6.1 million. The decrease in revenue from existing clients was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the amounts received from these clients as revenue, resulting in lower revenue.

Revenue by Geography

The following table sets forth the composition of our revenue based on the location of our clients in our key geographies for the periods indicated:

(US $ in million)

	Revenue		As a percentage of revenue	
	Six months ended September 30,			
	2011	2010	2011	2010
UK	$ 152.3	$ 182.9	62.5%	60.1%
North America (primarily the US)	$ 73.9	$ 69.9	30.4%	23.0%
Europe (excluding the UK)	$ 13.2	$ 48.4	5.4%	15.9%
Rest of World	$ 4.2	$ 2.9	1.7%	1.0%

The decrease in revenue from the UK and Europe region was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the amounts received from these clients as revenue, resulting in lower revenue. The increase in revenue in North America (primarily the US) was primarily due to higher volumes in the Travel and leisure and Insurance verticals.

Revenue less Repair Payments

The following table sets forth our revenue less repair payment and percentage change in revenue less repair payments for the periods indicated:

(US $ in million)

	Six months ended September 30,			
	2011	2010	Change	% Changes
Revenue less repair payments	$ 198.0	$ 182.4	$ 15.6	8.6%

The increase in revenue less repair payments of $15.6 million was primarily attributable to an increase in revenue less repair payments from existing clients of $9.5 million and revenue less repair payments from new clients of $6.1 million. The increase in revenue less repair payments was primarily due to higher volumes in the Insurance, Diversified businesses, Consulting and professional services and Travel and leisure verticals and an appreciation of the pound sterling against the US dollar.

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Revenue less Repair Payments by Geography

The following table sets forth the composition of our revenue less repair payments based on the location of our clients in our key geographies for the periods indicated:

(US $ in million)

	Revenue less repair payments		As a percentage of revenue less repair payments	
	Six months ended September 30,			
	2011	2010	2011	2010
UK	$ 106.7	$ 96.3	53.9%	52.8%
North America (primarily the US)	$ 73.9	$ 69.9	37.3%	38.3%
Europe (excluding the UK)	$ 13.2	$ 13.3	6.7%	7.3%
Rest of World	$ 4.2	$ 2.9	2.1%	1.6%

The increase in revenue less repair payments from the UK region was primarily attributable to higher volumes in the Insurance, Diversified businesses and Consulting and professional services verticals. The increase in revenue in North America (primarily the US) was primarily due to higher volumes in the Travel and leisure and Insurance verticals.

Cost of Revenue

The following table sets forth the composition of our cost of revenue for the periods indicated:

(US $ in million)

	Six months ended September 30,		
Cost of revenue	2011	2010	Change
Employee costs	$ 82.7	$ 76.5	$ (6.2)
Repair payments	45.5	121.7	76.2
Facilities costs	26.8	22.9	(3.9)
Depreciation	7.8	8.6	0.8
Legal and professional costs	5.0	4.6	(0.5)
Travel costs	5.1	3.1	(2.0)
Other costs	7.7	5.8	(1.9)
Total cost of revenue	$ 180.6	$ 243.1	$ 62.5
As a percentage of revenue	74.2%	79.9%	

The decrease in repair payments was primarily attributable to our auto claims business on account of changes to certain client contracts and contracts with repair centers whereby the significant risk of services and the credit risk are now borne by these clients instead of us. As a result of these changes, we no longer account for the payments made to repair centers for cases referred by this client as cost of revenue, which resulted in lower repair payments. The decrease was partially offset by an increase in employee costs due to an increase in salary and an appreciation of the Indian rupee against the US dollar. The facilities costs were higher by $3.9 million on account of new facilities in Costa Rica, Mumbai, Pune and Chennai, which were partially offset by a de-recognition of deferred rent liability of $1.0 million resulting from significant modifications in our lease agreement for Mumbai location.

Gross Profit

The following table sets forth our gross profit for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Gross profit	$ 62.9	$ 61.0	$ 1.9

As a percentage of revenue	25.8%	20.1%
As a percentage of revenue less repair payments	31.8%	33.4%

Gross profit is higher due to higher revenue less repair payments as detailed above, partially offset by an increase in employee costs, facilities cost and an appreciation of the Indian rupee against the US dollar.

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Selling and marketing expenses

The following table sets forth the composition of our selling and marketing expenses for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Employee costs	$ 10.2	$ 8.3	$ (1.9)
Other costs	3.5	3.2	(0.3)
Total selling and marketing expenses	$ 13.6	$ 11.4	$ (2.2)
As a percentage of revenue	5.6%	3.8%	
As a percentage of revenue less repair payments	6.9%	6.3%	

The increase was primarily the result of ongoing investment in the expansion of our sales team, client partner program, and branding and marketing initiatives. We anticipate maintaining a consistent level of investment (as a percentage of our revenue less repair payments) in support of our growth strategy.

General and administrative expenses

The following table sets forth the composition of our general and administrative expenses for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Employee costs	$ 18.8	$ 12.8	$ (6.0)
Other costs	7.1	14.3	7.2
Total general and administrative expenses	$ 25.9	$ 27.1	$ 1.2
As a percentage of revenue	10.6%	8.9%	
As a percentage of revenue less repair payments	13.1%	14.9%	

The decrease was primarily on account of cost optimization in support functions and better operating leverage resulting in lower legal and professional costs, facilities costs and other costs. This decrease was partially offset by an increase in employee costs as a result of higher salary including share based compensation expense of $1.3 million.

Foreign exchange gains, net

The following table sets forth our foreign exchange gains, net for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Foreign exchange gains, net	$ (3.2)	$ (4.7)	$ (1.5)

The decrease was due to lower unrealized foreign exchange gains on revaluation of assets and liabilities, partially offset by higher foreign exchange loss on account of hedging.

Amortization of intangible asset

The following table sets forth our amortization of intangible assets for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Amortizations of intangible asset	$ 15.4	$ 15.9	$ 0.5

The decrease was primarily due to the lower amortization charge of intangible assets acquired in connection with the acquisition of Flovate in June 2007 and BizAps in June 2008.

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Operating profit

The following table sets forth our operating profit for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Operating profit	$ 11.2	$ 11.2	$ 0.0
As a percentage of revenue	4.6%	3.7%	
As a percentage of revenue less repair payments	5.7%	6.2%	

Operating profit has remained the same primarily due to higher gross profit as discussed above and lower general and administrative expenses, partially offset by higher selling and marketing expenses and lower foreign exchange gain.

Finance Expense

The following table sets forth our finance expense for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Finance expense	$ 2.1	$ 9.1	$ 7.0

The decrease was primarily due to lower interest cost on account of the scheduled repayment of our term loan and a onetime cost impact of $5.1 million due to an interest rate swap unwinding charge as a result of our term loan restructuring in the first quarter of fiscal 2011.

Other (income) expense, net

The following table sets forth our other income, net for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Other income, net	$ (0.1)	$ (0.3)	$ (0.2)

Provision for income taxes

The following table sets forth our provision for income taxes for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Provision for income taxes	$ 5.1	$ 2.3	$ (2.8)

The increase in income tax is primarily on account of the expiry of the STPI tax holiday period in India as of April 1, 2011.

Profit

The following table sets forth our profit for the periods indicated:

(US $ in million)

	Six months ended September 30,		
	2011	2010	Change
Profit	$ 4.1	$ 0.1	$ 3.9
As a percentage of revenue	1.7%	0.0%	
As a percentage of revenue less repair payments	2.1%	0.1%	

The increase in profit was primarily on account of higher revenue less repair payments, cost savings from management initiatives and a onetime cost impact of $5.1 million due to an interest rate swap unwinding charge in the

first quarter of fiscal 2011, partially offset by higher employee costs and provision for income taxes as discussed above.

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Liquidity and Capital Resources

Our capital requirements are principally for debt repayment, the establishment of operations facilities to support our growth and acquisitions. Our sources of liquidity include cash and cash equivalents, and cash flow from operations, supplemented by equity and debt financing and bank credit lines as required.

As at September 30, 2011, we had cash and cash equivalents of $16.1 million. We typically seek to invest our available cash on hand in bank deposits, and money market instruments.

As at September 30, 2011, our Indian subsidiary, WNS Global, had unsecured lines of credit of 470.0 million ($9.6 million based on the exchange rate on September 30, 2011) from The Hongkong and Shanghai Corporation Limited and $10.0 million from BNP Paribas, interest on which would be determined on the date of the borrowing. As at September 30, 2011, 293.8 million ($6.0 million based on the exchange rate on September 30, 2011) was utilized for working capital requirement and 11.5 million ($0.2 million based on the exchange rate on September 30, 2011) was utilized for obtaining bank guarantees from the line of credit available with The Hongkong and Shanghai Corporation Limited and $5.0 million was utilized for working capital requirements from the lines of credit available with BNP Paribas.

In July 2008, we obtained a $200 million term loan facility to fund, together with existing cash and cash equivalents, the AVIVA transaction. Interest on the term loan was payable on a quarterly basis. Interest on the term loan was initially agreed at a rate equivalent to the three-month US dollar LIBOR plus 3% per annum. Effective January 10, 2009, the interest rate was increased by 0.5% per annum. In connection with the term loan, we entered into interest rate swap with banks covering the outstanding amount under the facility to swap the variable portion of the interest based on US dollar LIBOR to a fixed average rate. The outstanding balance of the term loan following prepayments and scheduled repayments made on the term loan as at July 12, 2010 was $115 million.

On July 12, 2010 the balance of $115 million was prepaid with cash on hand and proceeds from a term loan facility for $94 million obtained pursuant to a facility agreement dated July 2, 2010 between WNS (Mauritius) Limited and The Hongkong and Shanghai Banking Corporation Limited, Hong Kong, DBS Bank Limited, Singapore and BNP Paribas, Singapore, or the 2010 Term Loan. This 2010 Term Loan has been financed equally by all the three lenders and bears interest at a rate equivalent to the three-month US dollar LIBOR plus a margin of 2% per annum. This term loan is repayable in semi-annual installments of $20 million on each of January 10, 2011 and July 11, 2011 and $30 million on January 10, 2012 with the final installment of $24 million payable on July 10, 2012. On January 10, 2011 and July 11, 2011, we made a scheduled repayment installment of $20 million each. Following the installment repayments, the amount outstanding under the facility was $54 million. Repayment under the facility is guaranteed by us and secured by, among other things, pledges of shares provided by us and certain of our subsidiaries, charges over certain of our bank accounts and a fixed and floating charge over the assets of one of our UK subsidiaries, or the 2010 Term Loan Charge, which ranks pari passu with the UK Loan Charge (as defined below). The facility agreement contains certain restrictive covenants on our indebtedness, total borrowings to tangible net worth ratio, total borrowings to EBITDA ratio and a minimum interest coverage ratio, each as defined in the facility agreement.

WNS Global Services (UK) Limited, or WNS UK, entered into a facility agreement dated June 30, 2010 with HSBC Bank plc for a secured line of credit for the £19.8 million ($30.8 million based on the exchange rate on September 30, 2011), consisting of a £9.9 million ($15.4 million based on the exchange rate on September 30, 2011) two year term loan facility repayable on maturity and a £9.9 million ($15.4 million based on the exchange rate on September 30, 2011) working capital facility which has been renewed on June 30, 2011. The term loan bears interest at Bank of England base rate plus a margin of 1.95% per annum and the working capital facility bears interest at Bank of England base rate plus a margin of 2.45% per annum. Repayment under the facility is guaranteed by us and secured by, among other things, pledges of shares provided by us and certain of our subsidiaries, a charge over one of our bank accounts and a fixed and floating charge over the assets of one of our UK subsidiaries, or the UK Loan Charge, which ranks pari passu with the 2010 Term Loan Charge. The facility agreement contains certain restrictive covenants on our indebtedness, total borrowings to tangible net worth ratio, total borrowings to EBITDA ratio, a minimum interest coverage ratio and a minimum current ratio, each as defined in the facility agreement. As at September 30, 2011, £9.9 million ($15.4 million based on the exchange rate on September 30, 2011) was outstanding under the term loan facility and £4.7 million ($7.3 million based on the exchange rate on September 30, 2011) was outstanding under the

working capital facility.

WNS Global Services Philippines Inc. has established a $3.2 million line of credit pursuant to a facility agreement dated September 8, 2010 with The Hongkong and Shanghai Banking Corporation Limited. This facility consists of a three year term loan facility at the three-month US dollar LIBOR plus a margin of 3% per annum. This facility is secured by, among other things, a guarantee provided by us and contains certain restrictive covenants on our indebtedness, total borrowings to tangible net worth ratio, total borrowings to EBITDA ratio, a minimum interest coverage ratio, each as defined in the facility agreement. As at September 30, 2011, the amount outstanding against the facility was $3.2 million.

We believe that our anticipated cash generated from operating activities and cash and cash equivalents in hand will be sufficient to meet our estimated capital expenditures and financing commitments for fiscal 2012. However, under the current extreme market conditions as discussed under Global Market and Economic Conditions above, there can be no assurance that our business activity would be maintained at the expected level to generate the anticipated cash flows from operations. If the current market conditions persist or further deteriorate, we may experience a decrease in demand for our services, resulting in our cash flows from operations being lower than anticipated. If our cash flows from operations is lower than anticipated, including as a result of the ongoing downturn in the market conditions or otherwise, we may need to obtain additional financing to pursue certain of our expansion plans. Further, we may in the future consider making acquisitions which we expect to be able to finance partly or fully from cash generated from operating activities. If we have significant growth through acquisitions or require additional operating facilities beyond those currently planned to service new client contracts, we may also need to obtain additional financing. If current market conditions continue to persist or deteriorate further, we may not be able to obtain additional financing or any such additional financing may be available to us on unfavorable terms. An inability to pursue additional opportunities will have a material adverse effect on our ability to maintain our desired level of revenue growth in future periods.

In summary, our cash flows were:

(US $ in million)

	Six months ended September 30,			
	2011		2010	
Net cash provided by operating activities	$	24.1	$	9.0
Net cash used in investing activities	$	(12.8)	$	(7.1)
Net cash (used in) provided by financing activities	$	(14.8)	$	(12.1)

Cash Flows from Operating Activities

Cash provided by operating activities were $24.1 million for the six months ended September 30, 2011 as compared to $9.0 million for the six months ended September 30, 2010. The increase in cash provided by operating activities for the six months ended September 30, 2011 as compared to the six months ended September 30, 2010 was attributable to an increase in profit as adjusted by non-cash related items by $15.2 million and a reduction in cash paid for interest by $2.4 million for the six months ended September 30, 2011 as compared to September 30, 2010. The same was offset by an increase in cash paid for income taxes by $1.4 million, decrease in interest received by $0.1 million and an increase in working capital outflow by $1.0 million for the six months ended September 30, 2011 as compared to September 30, 2010. Cash from working capital changes decreased by $1.0 million primarily due to changes in other current assets, accounts payable and deferred revenue, offset by changes in accounts receivable and other current liabilities in the six months ended September 30, 2011 resulting in a net cash outflow aggregating $16.5 million as compared to $15.5 million in the six months ended September 30, 2010. The increase in profit as adjusted for non-cash related items by $15.2 million was primarily on account of (i) an increase in unrealized loss on derivatives instruments by $9.6 million, (ii) an increase in income tax expense by $5.6 million, (iii) an increase of $3.9 million in profit, (iv) an increase in share-based compensation expense by $1.9 million, and (v) an increase in allowance for doubtful debts by $0.9 million. This increase was partially offset by (i) an increase in deferred tax credit by $2.8 million, (ii) a decrease in interest expense by $1.9 million, (iii) a decrease in depreciation and amortization expenses by $1.5 million, (iv) a decrease in excess tax benefit on share based options exercised by $0.3 million, and (v) a decrease in amortization charge of deferred financing cost of $0.3 million.

Cash Flows from Investing Activities

Cash used in investing activities were $12.8 million for the six months ended September 30, 2011 as compared to $7.1 million for the six months ended September 30, 2010. Investing activities comprised the following: (i) the capital expenditure incurred for leasehold improvements, purchase of computers, furniture, fixtures and other office equipment associated with expanding the capacity of our delivery centers in the six months ended September 30, 2011 was $13.0 million, which was higher by $6.2 million as compared to $6.8 million in the six months ended

September 30, 2010, partially offset by (ii) a payment made towards earnout consideration of $0.5 million during the six months ended September 30, 2010.

Cash Flows from Financing Activities

Cash used in financing activities were $14.8 million for the six months ended September 30, 2011, as compared to $12.1 million for the six months ended September 30, 2010. Financing activities in the six months ended September 30, 2011 was primarily on account of (i) a short term loan of $6.0 million taken by WNS Global Services Private Limited, or WNS Global, and a repayment of $1.4 million of short term loan by WNS UK, as compared to a short term loan of $10.6 million taken by WNS UK, in the six months ended September 30, 2010, (ii) payment made towards debt issuance cost in WNS (Mauritius) Limited was lower by $0.8 million for the six months ended September 30, 2011 as compared to the six months ended September 30, 2010, (iii) proceeds received towards shares issued was lower by $0.6 million for the six months ended September 30, 2011 as compared to the six months ended September 30, 2010, (iv) a long term debt taken by WNS UK for $14.9 million, by WNS (Mauritius) Limited for $46.8 million and by WNS Global Services Philippines, Inc. for $3.2 million during the six months ended September 30, 2010 and (v) a loan repayment of $20.0 million during the six months ended September 30, 2011 as compared to a repayment of $87.8 million during the six months ended September 30, 2010 by WNS (Mauritius) Limited.

Tax Assessment Orders

Transfer pricing regulations to which we are subject require that any international transaction among WNS and its subsidiaries, or the WNS group enterprises, be on arm s-length terms. We believe that the international transactions among the WNS group enterprises are on arm s-length terms. If, however, the applicable tax authorities determine the transactions among the WNS group enterprises do not meet arms length criteria, we may incur increased tax liability, including accrued interest and penalties. This would cause our tax expense to increase, possibly materially, thereby reducing our profitability and cash flows. The applicable tax authorities may also disallow deductions or tax holiday benefits claimed by us and assess additional taxable income on us in connection with their review of our tax returns.
From time to time, we receive orders of assessment from the Indian tax authorities assessing additional taxable income on us and/or our subsidiaries in connection with their review of our tax returns. We currently have a few orders of assessment outstanding and are vigorously disputing those assessments. We have described below assessment orders that we believe could be material to our company given the magnitude of the claim. In case of disputes, the Indian tax authorities may require us to deposit with them all or a portion of the disputed amount pending resolution of the matter on appeal. Any amount paid by us as deposits will be refunded to us with interest if we succeed in our appeals.
In January 2009, we received an order of assessment from the Indian tax authorities that assessed additional taxable income for fiscal 2005 on WNS Global, our wholly-owned Indian subsidiary, that could give rise to an estimated 728.1 million ($14.9 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 225.9 million ($4.6 million based on the exchange rate on September 30, 2011). The assessment order alleges that the transfer price we applied to international transactions between WNS Global and our other wholly-owned subsidiaries was not appropriate, disallows certain expenses claimed as tax deductible by WNS Global and disallows a tax holiday benefit claimed by us. In March 2009, we deposited 10.0 million ($0.2 million based on the exchange rate on September 30, 2011) with the Indian tax authorities pending resolution of the dispute. The first level Indian appellate authorities have ruled in our favor in our dispute against an assessment order assessing additional taxable income for fiscal 2004 on WNS Global based on similar allegations on transfer pricing and tax deductibility of similar expenses and overturned the assessment. The Indian tax authorities contested the first level Indian appellate authorities ruling before the second level appellate authorities and resolution of the dispute is pending. We disputed the order of assessment for fiscal 2005 before the first level Indian appellate authorities. In November 2010, we received the order from the first level Indian appellate authorities in respect of the assessment order for fiscal 2005 deciding the issues in our favor. However, the order has been contested before second level appellate authorities by the Indian tax authorities and resolution of the dispute is pending.
In November 2009, we received a draft order of assessment from the Indian tax authorities (incorporating the transfer pricing order that we had received on October 31, 2009) for fiscal 2006. We had disputed the draft order of assessment before Dispute Resolution Panel, or DRP, a panel set up by the Government of India as an alternative to first appellate authority. In September 2010, we have received the DRP Order as well as the order of assessment giving effect to DRP order that assessed additional taxable income on WNS Global that could give rise to an estimated 457.3 million ($9.3 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 160.4 million ($3.3 million based on the exchange rate on September 30, 2011). The assessment order involves issues similar to that alleged in the order for fiscal 2005. Further, in September 2010, we have also received the DRP Orders as well as the orders of assessment giving effect to DRP orders in case of our certain other Indian subsidiaries assessed for tax in India, that assessed additional taxable income for fiscal 2006 that could give rise to an estimated 273.2 million ($5.6 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 95.4 million ($1.9 million based on the exchange rate on September 30, 2011). The DRP orders as well as assessment orders alleges that the transfer price we applied to international transactions with our related parties were not appropriate and taxed certain receipts claimed by us as not taxable. We deposited 24.2 million ($0.5 million based on the exchange rate on September 30, 2011) with the Indian tax authorities pending resolution of the dispute. We have disputed these orders before higher appellate tax authorities.
In February 2011, we received the order of assessment for fiscal 2007 from the Indian tax authorities (incorporating a transfer pricing order that we had received in November 2010) that assessed additional taxable income on WNS

Global that could give rise to an estimated 854.4 million ($17.4 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 277.3 million ($5.7 million based on the exchange rate on September 30, 2011). We deposited 30.0 million ($0.6 million based on the exchange rate on September 30, 2011) with the Indian tax authorities pending resolution of the dispute and were granted a stay of demand by the Indian income tax authorities in respect of the remaining 660.6 million ($13.5 million based on the exchange rate on September 30, 2011) in additional taxes after adjusting for the refund due to WNS Global for prior years which amounted to 124.5 million ($2.5 million based on the exchange rate on September 30, 2011) , rectification of the assessment order which amounted to 39.2 million ($0.8 million based on the exchange rate on September 30, 2011) and taxes that have been paid by WNS Global which amounted to 30 million ($0.6 million based on the exchange rate on September 30, 2011). Following the grant of the stay of demand, we paid additional taxes of 7.5 million ($0.2 million based on the exchange rate on September 30, 2011).

In October 2011, we received a notice from the Indian income tax authorities revoking the stay of demand issued in respect of the assessment orders relating to WNS Global for fiscal 2007, and demanding payment of the pending tax amount. After consultation with our tax advisors, we have filed a writ petition with the Bombay High Court, requesting for a stay of demand. We have contested the assessment orders from the Indian tax authorities for fiscal 2007 before the higher appellate tax authorities, and intend to contest such notice as well. We believe that as this notice is merely a revocation of the stay on the previous assessment orders and not a new assessment order, it will not materially affect our financial position.

Further, in February 2011, we also received the orders of assessment, relating to certain of our other subsidiaries assessed for tax in India, that assessed additional taxable income for fiscal 2007 that could give rise to an estimated 462.7 million ($9.4 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 145.6 million ($3.0 million based on the exchange rate on September 30, 2011). We have separately deposited 50.8 million ($1 million based on the exchange rate on September 30, 2011) with the Indian tax authorities pending resolution of the dispute. The orders of assessment involve issues similar to that alleged in the orders for fiscal 2005 and 2006. We have disputed the said orders of assessment before first level Indian appellate authorities. In September 2011, we received an order from the first level Indian appellate authorities granting part relief to one of our subsidiaries in respect of its disputed order of assessment. As a result of this order, the adjusted assessed additional taxable income for fiscal 2007 of our subsidiaries assessed for tax in India could give rise to an estimated 436.2 million ($8.9 million based on the exchange rate on September 30, 2011) in additional taxes, including interest of 138 million ($2.8 million based on the exchange rate on September 30, 2011).

Based on certain favorable decision from appellate authorities in previous years, certain legal opinions from counsel and after consultation with the Indian tax advisors, we believe that the chances of the aforementioned assessments, upon challenge, being sustained at the higher appellate authorities are remote and we intend to vigorously dispute the assessments and order. We have deposited a small portion of the disputed amount with the tax authorities and may be required to deposit the remaining portion of the disputed amount with the tax authorities pending final resolution of the respective matters.

In March 2009, we received an assessment order from the Indian Service Tax Authority demanding payment of 346.2 million ($7.1 million based on the exchange rate on September 30, 2011) of service tax and related penalty for the period from March 1, 2003 to January 31, 2005. The assessment order alleges that service tax is payable in India on BPO services provided by WNS Global to clients based abroad as the export proceeds are repatriated outside India by WNS Global. In April 2009, we filed an appeal to the appellate tribunal against the assessment order and the appeal is currently pending. After consultation with the Indian tax advisors, we believe the chances that the assessment would be upheld against us are remote. We intend to continue to vigorously dispute the assessment.

No assurance can be given, however, that we will prevail in our tax disputes. If we do not prevail, payment of additional taxes, interest and penalties may adversely affect our results of operations, financial condition and cash flows. There can also be no assurance that we will not receive similar or additional orders of assessment in the future.

Quantitative and Qualitative Disclosures about Market Risk

General

Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices ands

3 3

Cumulative effect of foreign currency translation

(66) (66)

Net loss

(3,000) (3,000)

Total comprehensive loss

(3,063)

Balance at December 31, 2005

6,948,900 $3,440 $74,160 $42,165 $(199) $119,566

The accompanying notes are an integral part of these financial statements.

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GRAVITY Co., Ltd.
Consolidated Statements of Cash Flows
December 31, 2003, 2004 and 2005

	2003	2004	2005	(Note 3) 2005
				(Unaudited)
	(In millions of Korean Won and in thousands of US dollars)			
Cash flows from operating activities				
Net income (loss)	W 19,140	W 28,057	W (3,030)	$ (3,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	1,619	3,217	5,370	5,317
Loss from impairment on investment	777			
Loss on impairment of intangible asset			1,547	1,532
Provision for accrued severance benefits	363	913	1,464	1,450
Stock compensation expense		49	1,584	1,568
Equity in loss of related joint venture		296	394	390
Deferred income taxes	(912)	(1,155)	(6,232)	(6,170)
Other	256	15	387	383
Changes in operating assets and liabilities				
Accounts receivable	(1,251)	(498)	3,035	3,005
Deferred expense	122	(1,465)	2,592	2,566
Proceeds from joint venture			401	397
Misappropriated funds receivable	(6,050)	(28)	7,482	7,408
Other assets	(1,248)	(973)	(2,231)	(2,209)
Accounts payable	553	1,221	7,349	7,276
Deferred income	1,508	3,339	867	858
Accrued interest	(310)	(417)	(318)	(315)
Income tax payable	898	63	(619)	(613)
Long-term accounts payable	434	4	(928)	(919)
Payment of severance benefits	(114)	(144)	(2,288)	(2,265)
Other current liabilities	38	148	1,102	1,091
Net cash provided by operating activities	15,823	32,642	17,928	17,750
Cash flows from investing activities				
Increase in short-term financial instruments	(1,600)	(7,300)	(50,969)	(50,464)
Decrease (increase) of available-for-sale and other investments, net	(1,793)	151	500	495
Purchase of equity investments		(1,243)		
Purchase of property and equipment	(4,749)	(12,324)	(8,459)	(8,375)
Disposal of property and equipment	510	22	78	77
Cash paid for acquisition of subsidiaries, net of cash acquired			(9,193)	(9,102)
Purchase of intangible asset	(78)	(35)	(6,134)	(6,073)
Payment of leasehold deposits	(3,527)	(279)	(5,089)	(5,039)

Proceeds from leasehold deposits	710	2,000	212	210
Others, net	(37)	1	8	8
Net cash used in investing activities	W (10,564)	W (19,007)	W (79,046)	$ (78,263)
Cash flows from financing activities				
Issuance of common stock, net	W 3,206	W	W 71,837	$ 71,125
Repayment of capital lease liabilities	(500)	(104)		
Proceeds from borrowings	8,615		39	39
Repayment of long-term debt	(3,135)	(2,527)	(1,150)	(1,138)
Repayment of borrowings	(8,600)	(4)	(139)	(138)
Net cash provided by (used in) Financing activities	(414)	(2,635)	70,587	69,888
Net increase in cash and cash equivalents	4,845	11,000	9,469	9,375
Cash and cash equivalents				
Beginning of year	560	5,405	16,405	16,243
End of the year	W 5,405	W 16,405	W 25,874	$ 25,618

The accompanying notes are an integral part of these financial statements.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements
December 31, 2004 and 2005

1. Description of Business

GRAVITY Co., Ltd. (GRAVITY) was incorporated on April 4, 2000 and is engaged in developing and distributing online games and other related businesses principally in the Republic of Korea and in other countries within Asia, America and Europe. GRAVITY s principal product, a multi-player online role playing game, Ragnarok , was commercially launched in August 2002. In addition, R.O.S.E. Online game was commercially launched in January 2005.

GRAVITY founded GRAVITY Interactive, LLC, a limited liability company incorporated in the State of California (Interactive), as a wholly owned subsidiary, on March 14, 2003. On January 20, 2004, GRAVITY acquired 50% of the voting shares of RO Production Co., Ltd., a company incorporated under the laws of Japan. On October 25, 2004, the Company acquired the remaining 50% of the voting shares of RO Production Co., Ltd. The Company changed its corporate name to GRAVITY Entertainment Corp. on February 5, 2005. In April and May, 2005, GRAVITY acquired an aggregate of 88.15% of the voting shares of TriggerSoft Corp., a game developer of R.O.S.E. Online which was serviced by GRAVITY from January 20, 2005. In November and December, 2005, GRAVITY acquired an aggregate of 96.11% of the voting shares of NEOCYON, Inc. which provides mobile multimedia and online game distribution services in Korea and Russia.

GRAVITY registered 8,000,000 shares of American Depository Shares (ADS) on the NASDAQ National Market in the United States of America on February 8, 2005. Of the total shares registered, the Company sold 5,600,000 shares of ADSs, and the existing shareholders sold 2,400,000 shares of ADSs. The total cash proceeds to GRAVITY after the issuance cost was W71,837 million. Four ADS are equivalent to one common share.

On August 30, 2005, EZER, Inc. (EZER) acquired 52.39% ownership of GRAVITY from Mr. Jung-Ryool Kim, the former Chairman, and four other shareholders through a stock purchase agreement.

In connection with this acquisition, EZER entered into an investment fund agreement, or Tokumei Kumiai Agreement (TK Agreement) with Techno Groove, Co., Ltd. (Techno Groove). The acquisition by EZER of 52.39% of GRAVITY was made through Asian Star Fund (Asian Star) which is an investment fund for which EZER is the management company. EZER exercises all exclusive rights with respect to ownership and voting related to EZER s 52.39% ownership in GRAVITY. The funds used by Asian Star to acquire EZER s shareholding in GRAVITY were provided to Asian Star by Techno Groove, a subsidiary of Asian Groove, Inc. (Asian Groove) and the sole investor in Asian Star. Asian Groove is an affiliate of GungHo Online Entertainment, Inc. (GungHo), a licensee of the Company s online game, Ragnarok and from whom the Company has purchased the rights to an online game, Emil Chronicle Online (see Notes 2 and 10).

GRAVITY conducts its business within one industry segment the business of developing and distributing online game, software licensing and other related services.

2. Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

Principles of consolidation

The accompanying consolidated financial statements include the accounts of GRAVITY and the following subsidiaries (collectively referred to as the Company). All significant intercompany transactions and balances have been eliminated in the consolidation.

Subsidiary	Year of Establishment	Year of Obtaining Control	Ownership Percentage (%)
GRAVITY Interactive, LLC	2003	2003	100.00
GRAVITY Entertainment Corp.	2003	2004	100.00
TriggerSoft Corp.	1997	2005	88.15
NEOCYON, Inc.	2000	2005	96.11
Cybermedia International Inc.(*)	2005	2005	100.00
Mados, Inc.(**)	2005	2005	100.00

* Cybermedia International Inc. is a subsidiary of NEOCYON, Inc., which was incorporated as a holding company of Mados, Inc.

** Mados, Inc. is a subsidiary of Cybermedia International Inc., which was incorporated in Russia to provide online game distribution services.

Investments in entities where the Company holds more than a 20% but less than a 50% ownership interest and have the ability to significantly influence the operations of the investee are accounted for using the equity method of accounting and our share of the investee s operation is included in equity method investee. The Company follows the equity method of accounting for investment in its joint venture of Animation Production Committee. The Company records its initial investment at cost and records its pro rata share of the earnings in or losses in the results of operations of the joint venture.

Stock split

On November 22, 2003, the Company s shareholders approved a 10-for-1 stock split, which became effective on December 25, 2003. The accompanying consolidated financial statements, including all share and per share data, have been restated as if the stock split had occurred as of the earliest period presented.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related disclosures. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from these estimates.

Risks and Uncertainties

The industry in which the Company operates is subject to a number of industry-specific risks, including, but not limited to, rapidly changing technologies; significant numbers of new competitive entrants; dependence on key individuals; competition from similar products from larger companies; customer preferences; the need for the continued successful development, marketing, and selling of its products and services; and the need for positive cash flows from operations. The Company depends on one key product, Ragnarok and has a limited operating history and as a result, the Company is subject to risks associated with early stage companies in new and rapidly evolving markets.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

During the years ended December 31, 2003, 2004 and 2005, the Company generated 95%, 94% and 91% of its revenues from countries in Asia, respectively. Any economic downturn or crisis in Asia would have a significant negative impact on the Company.

The following table summarizes licensees representing 10% or more of the total accounts receivable at December 31, 2004 and 2005, and total revenues for the years ended December 31, 2003, 2004, and 2005, respectively:

		2003	2004		2005	
Country	Licensee	Revenues	Accounts Receivable	Revenues	Accounts Receivable	Revenues
Japan	GungHo(*)	25%	21%	29%	28%	31%
Taiwan and Honkong	Soft-world International Corporation	24%	30%	23%	9%	20%
Korea	YNK Korea, Inc. (formerly known as Sunny YNK Inc.)	33%	28%	20%		9%

(*) At December 31, 2005, Asian Groove owns directly and indirectly 24.5% of the common stock of GungHo and exercises significant influence. The Company s accounts receivable relating to GungHo was W1,513 million and W1,343 million as of December 31, 2004 and 2005, respectively.

Revenue recognition

Online games-subscription revenue

Prepaid online game subscriptions are deferred and recognized when actually used.

Online games-royalties and license fees

The Company licenses the right to sell and distribute its games in exchange for an initial prepaid license fee and guaranteed minimum royalty payments. The prepaid license fee revenues are deferred and recognized ratably over the license period. The guaranteed minimum royalty payments are deferred and recognized as the royalties are earned. In addition, the Company receives a royalty payment based on a specified percentage of the licensees sales. These royalties, that exceed the guaranteed minimum royalty, are recognized on a monthly basis, as the related revenues are earned by the licensees.

In February and April 2002, the Company entered into agreements with YNK Korea, Inc. (YNK Korea) pursuant to which the Company granted it the exclusive right to distribute Ragnarok in Korea for a contractual period of three years from the date Ragnarok was first commercialized. The Company acts as the primary obligor with the end-user, and in the majority of situations the end-user is not aware of the existence of YNK Korea. The game is marketed and branded by the Company, and it takes full responsibility for any customer complaints, questions, support and is responsible to fix any bugs that are identified. The Company develops content and maintains legal ownership of the copyrights to the games. It hosts the delivery of the games on its servers and can refuse end-users from participating in game play. The Company has the right to stop providing services to support the game at any time. In accordance with Emerging Issues Task Force (EITF) No. 99-19, *Reporting Revenue Gross versus Net*, the Company presents the entire revenue derived from the YNK Korea license arrangement in its statement of operations.

The related agreements with YNK Korea expired in July 2005.

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

Cash and cash equivalents

Cash equivalents consist of highly liquid investments with an original maturity date of three months or less.

Short-term financial instruments

Short-term financial instruments include time deposits, with maturities greater than three months but less than a year.

Available-for-sale investments

Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of comprehensive income in shareholders equity.

Allowance for doubtful accounts

The Company maintains allowances for doubtful accounts receivable based upon the following information: an aging analysis of its accounts receivable balances, historical bad debt rates, repayment patterns and creditworthiness of its customers, and industry trend analysis.

Subsequent to June 2003, pursuant to agreements with various payment gateway providers, the payment gateway providers are responsible for remitting to the Company the full subscription revenues generated in Korea after deducting their fixed service fees and charges, which range from approximately 9% to 13% and risk of loss or delinquencies are borne by such payment gateway providers.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation for property and equipment is computed using the straight-line method over the following estimated useful lives:

Building	40 years
Computer and equipment	4 years
Furniture and fixtures	4 years
Software	3 years
Vehicles	4 years

Leasehold improvements are depreciated on a straight-line basis over the estimated useful life of the assets or the lease term, whichever is shorter.

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful lives of the related assets are capitalized.

Accounting for the impairment of long-lived assets

Long-lived assets and intangible assets that do not have indefinite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the aggregate of future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized based on the fair value of the asset.

Capitalized software development costs

The Company capitalizes certain software development costs relating to online games that will be distributed through subscriptions or licenses. The Company accounts for software development in accordance

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

with Statements of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* Software development costs incurred prior to the establishment of technological feasibility are expensed when incurred and are included in research and development expense. Once a software product has reached technological feasibility, then all subsequent software development costs for that product are capitalized until the product is commercially launched. Technological feasibility is evaluated on a product-by-product basis, but typically occurs when the online game has a proven ability to operate in a massively multi-player format. Technological feasibility of a product encompasses both technical design documentation and game design documentation. For products where proven technology exists, this may occur early in the development cycle.

After an online game is released, the capitalized product development costs are amortized over the game s estimated useful life, which is deemed to be three years. This expense is recorded as a component of cost of revenues.

Capitalized software development costs net of accumulated amortization at December 31, 2004 and 2005 was W468 million and W6,370 million, respectively, which is included in the intangible assets of the accompanying balance sheets. Amortization expense for fiscal years ended December 31, 2003, 2004 and 2005 was W157 million, W199 million and W253 million respectively.

The Company evaluates the recoverability of capitalized software development costs on a product-by-product basis. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products using comparable technology; orders for the product prior to its release; and estimated performance of a sequel product based on the performance of the product on which the sequel is based. Capitalized costs for those products that are cancelled are expensed in the period of cancellation. In addition, a charge to cost of revenues is recorded when management s forecast for a particular game indicates that unamortized capitalized costs exceed the net realizable value of that asset. Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional development costs to be incurred. If revised forecasted or actual product sales are less than and/or revised forecasted or actual costs are greater than the original forecasted amounts utilized in the initial recoverability analysis, the actual impairment charge may be larger than originally estimated in any given period.

Research and development costs

Research and development costs consist primarily of payroll, depreciation expense and other overhead expenses which are all expensed as incurred until technological feasibility is reached.

Goodwill

Goodwill is accounted for under SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142), which requires that goodwill and indefinite-lived intangible assets no longer be amortized, but instead be tested for impairment at the reporting unit level, at least annually.

Definite-lived other Intangible assets

Definite-lived intangible assets are amortized over their estimated useful life according to the nature and characteristics of each intangible assets. The Company continually evaluates the reasonableness of the useful lives of these assets. Definite-lived intangible assets that are subject to amortization shall be reviewed for

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

impairment in accordance with under SFAS No. 144, *Accounting for the impairment or Disposal of Long-Lived Assets* .

Advertising

The Company expenses advertising costs as incurred. Advertising expense was approximately W4,233 million, W4,614 million and W6,273 million for the years ended December 31, 2003, 2004 and 2005, respectively. Pursuant to the terms of the agreement with YNK Korea, once the cumulative royalty payments to YNK Korea reached W7 billion, it is required to use 15% of future royalty payments, paid by the Company, to fund additional marketing of the Ragnarok game. In March 2003, cumulative royalty payments to YNK Korea reached W7 billion. After January 1, 2004, these marketing activities were performed by the Company and therefore, YNK Korea reimbursed the Company for these costs in compliance with the agreed terms, which was credited to advertising expenses within selling, general and administrative expenses in the accompanying statement of operations.

Accrued severance benefits and Pension Plan

Employees and directors with one year or more of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on the length of service and rate of pay at the time of termination. Accrued severance benefits are estimated assuming all eligible employees were to terminate their employment at the balance sheet date in compliance with relevant laws in Korean. The annual severance benefits expense charged to operations is calculated based upon the net change in the accrued severance benefits payable at the balance sheet date.

Accrued severance benefits are funded through a group severance insurance plan. The amounts funded under this insurance plan are classified as a deduction to the accrued severance benefits.

The Company introduced defined contribution pension plan (Plan) in 2005 and provides an individual account for each participant. A plan s defined contributions to an individual s account are to be made for periods in which that individual renders services, the net pension cost for a period shall be the contribution called for in that period.

Foreign currency translation

The Korean parent company and its subsidiaries use their local currencies as their functional currencies. All assets and liabilities of the foreign subsidiaries are translated into the Korean Won at the exchange rate in effect at the end of the period, and revenues and expenses are translated at average exchange rates during the period. The effects of foreign currency translation adjustments, net of tax, are reflected in the cumulative translation adjustment account, reported as a separate component of comprehensive income in shareholders equity.

Foreign currency transactions

Net gains and losses resulting from foreign exchanges transactions are included in foreign currency gains (losses) in the statement of operations.

Income taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes.* Under SFAS No. 109, income taxes are accounted for under the asset and liability method. Deferred taxes are determined based upon differences between the financial reporting and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse.

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

A valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that such deferred tax assets will not be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred tax assets and liabilities.

Fair value of financial instruments

The Company s carrying amounts of cash, cash equivalents, short-term financial instruments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments.

Derivatives

Derivative instruments, regardless of whether they are entered into for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with the changes in fair value included in current operations.

Derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions being hedged or associated with such contract. The instruments are valued at fair value when underlying transactions are valued at fair value, and resulting unrealized valuation gains or losses are recorded in current results of operations.

The Company entered into sixteen foreign currency forward contracts with various financial institutions in 2005 and there are no outstanding derivative contracts as of December 31, 2005. The Company settled the contracts at the terminal dates and recognized a transaction gains of W1,033 million and transaction losses of W1,886 million for the year ended December 31, 2005.

Accounting for Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, using the fair value method. Under this method, compensation cost for stock option grants are measured at the grant date based on the fair value of the award and recognized over the service period, which is usually the vesting period, using the method promulgated by Financial Accounting Standards Board (FASB) Interpretations No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* (FIN 28). The Company uses a Black-Scholes model to determine the fair value of equity-based awards at the date of grant.

Earnings per Share

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding for all periods. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, increased by common stock equivalents. Common stock equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of the Company s outstanding stock options. However, potential common shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS 123(R) which requires that the cost resulting from equity-based compensation transactions be recognized in the financial statements using a fair-value-based method. The Statement replaces SFAS 123, supersedes APB 25, and amends SFAS No. 95. The new statement is effective for public entities in periods beginning after June 15, 2005. As the Company will be required to estimate its forfeitures on option grants instead of recognizing them when they occur, the Company will have a

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

transition adjustment on adoption. Upon adoption on January 1, 2006, the cumulative transition adjustment will be approximately W270 million.

On December 16, 2004, the FASB issued SFAS No. 153, *Exchanges of Non-Monetary Assets*, an amendment of APB Opinion No. 29. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect a significant impact on its results of operations and disclosures.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement requires retrospective application to prior periods financial statements of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principles to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The Company does not believe adoption of SFAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities* and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* SFAS No. 155 amends SFAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS No. 155 also amends SFAS No. 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. The Company is currently evaluating the impact of this new Standard but believes that it will not have a material impact on the Company s financial position, results of operations or cash flows.

In March 2006, the EITF issued EITF issue number 06-3, *How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross, Versus Net Presentation).* EITF 06-3 tentatively concluded that a company must adopt a policy of presenting externally imposed taxes on either gross or net basis. Gross or net presentation may be selected for each different type of tax, but similar taxes should be presented consistently. Taxes within the scope of this issue would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, value-added taxes, and some types of excise taxes. Under a final consensus on EIFT 06-3, the disclosure would be required in annual financial period beginning after December 15, 2006. The Company has not assessed the impact of this new standard.

Reclassifications

Certain amounts in the 2003 and 2004 financial statements have been reclassified to conform to 2005 presentation.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

3. Convenience Translation into United States Dollar Amounts

The Company reports its consolidated financial statements in the Korean Won. The United States dollar (US dollar) amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, and have been converted at the rate of 1,010.0 Korean Won to one US dollar, which is the noon buying rate of the US Federal Reserve Bank of New York in effect on December 31, 2005. Such translations should not be construed as representations that the Korean Won amounts represent, have been, or could be, converted into, US dollars at that or any other rate. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles either in Korea or the United States of America.

4. Allowance for Accounts receivable

Changes in the allowance for accounts receivable for the years ended December 31, 2003, 2004 and 2005 are as follows:

	2003	2004	2005
	(In millions of Korean Won)		
Balance at beginning of year	W 151	W 242	W
Provision for allowances	91		31
Write-offs		242	
Balance at end of year	W 242	W	W 31

5. Investment in equity method investee

In April 2004, its subsidiary, GRAVITY Entertainment Corp. (formerly RO Production Co., Ltd.) invested JPY 123 million for a 30% interest in Animation Production Committee , a joint venture. The investment was accounted for under the equity method of accounting and it is included in the other non current assets of the accompanying balance sheets.

6. Acquisitions

(1) Acquisition of TriggerSoft Corp.

In April and May 2005, the Company acquired an aggregate of 88.15% of the voting common shares of TriggerSoft Corp. (the TriggerSoft) for a purchase price of W1,627 million in cash. TriggerSoft is a game developer of R.O.S.E. Online , which is serviced by the Company. The primary reasons for the acquisition were to involve actively in the updates and improvements of the game.

The acquisition was accounted for as a purchase and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values. TriggerSoft s results of operations are included in the Company s consolidated financial statement of operations from the date of acquisition. The excess amount of the purchase price over the fair market value of the net assets acquired is accounted for as residual goodwill.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

The estimated fair value of assets acquired and liabilities assumed on the acquisition dates were:

	(In millions of Korean Won)
Current assets	W 34
Non-current assets	200
Intangible assets	1,979
Goodwill	8
Current liabilities	W 214
Deferred tax liabilities	272
Non-current liabilities	108
Net assets acquired	W 1,627

The Company, with the assistance of independent valuation experts, determined the fair values of assets acquired and liabilities assumed and performed an allocation of the total purchase price of W1,627 million to the net assets acquired. Goodwill is not subject to amortization but periodic impairment assessment. The intangible asset of R.O.S .E Online game of W1,979 million is being amortized on a straight line basis over a useful life of three years. The amortization expense for the intangible asset for the year ended December 31, 2005 was W440 million.

At December 31, 2005, the Company determined to recognize impairment losses for remaining balance of intangible assets and goodwill due to deteriorated operational performance and adverse future cash flow expectation based on income approach. Both amortization expenses and impairment losses are included in selling, general and administrative expense of the accompanying statement of operations.

(2) Acquisition of NEOCYON, Inc.

In November and December 2005, the Company acquired an aggregate of 96.11% of the voting common share of NEOCYON, Inc. (the NEOCYON) for a purchase price of W7,716 million in cash. NEOCYON is the Mobile Internet Service Provider (MISP), who is engaged in the facilitation of content download business for Club Cyon and WOW LG.

The acquisition was accounted for as a purchase and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values. NEOCYON s results of operations are included in the Company s consolidated financial statement of operations from the date of acquisition. The primary reasons for the acquisition were to leverage from NEOCYON s knowledge of MISP business and as result, become a leading MISP provider globally. The excess amount of the purchase price over the fair market value of the net assets acquired is accounted for as residual goodwill.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

The estimated fair value of assets acquired and liabilities assumed on the acquisition dates were:

	(In millions of Korean Won)
Current assets	W 970
Non-current assets	263
Property and equipment	1,343
Intangible assets	6,526
Goodwill	1,451
Current liabilities	861
Deferred tax liabilities	907
Non-current liabilities	W1,069
Net assets acquired	W7,716

The Company, with the assistance of independent valuation experts, determined the fair values of assets acquired and liabilities assumed and performed an allocation of the total purchase price of W7,716 million to the net assets acquired.

Of the W6,526 million of acquired intangible assets, W5,600 million and W926 million were assigned to the value of content download business and the Ragnarok publishing right in Russia, respectively. The Company recorded amortization expense of W247 million for the acquired intangible assets, using straight-line method and useful life of three years, in selling, general and administrative expense.

7. Property and Equipment, Net

Property and equipment as of December 31, 2004 and 2005 consist of the following:

	2004	2005
	(In millions of Korean Won)	
Land	W 5,954	W 260
Building	2,234	881
Computer and equipment	5,427	10,251
Furniture and fixtures	537	2,146
Vehicles	190	406
Leasehold improvements	1,043	425
Software externally-purchased	4,200	5,663
	19,585	20,032
Less: accumulated depreciation	4,825	8,169
	W 14,760	W 11,863

Depreciation expenses for the years ended December 31, 2003, 2004 and 2005, were W1,459 million, W2,989 million and W4,388 million, respectively.

As of December 31, 2004, the Company s land and building were collateralized for leasehold deposits which amounted to W2,600 million. The related lease contract expired in July, 2005.

As of December 31, 2005, a certain of the Company s land and buildings are collateralized up to W820 million in connections with long-term borrowings.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

As of December 31, 2005, the Company reclassified a certain land and building to be disposed as Assets held for sale which were sold in May 2006.

8. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2003, 2004 and 2005 are as follows:

	2003	2004	2005
	(In millions of Korean Won)		
Balance at beginning of year	W 164	W 413	W 1,182
Increase due to acquisition of subsidiaries			230
Provisions for severance benefits	363	913	1,464
Severance payments	(114)	(144)	(2,288)
	413	1,182	588
Less: amounts placed on deposit with insurance company	(71)	(222)	
Balance at end of year	W 342	W 960	W 588

In December 26, 2005, GRAVITY introduced a defined contribution pension plan (Plan) in accordance with Employee Benefit Security Act of Korea and entered into a nonparticipating defined contribution insurance contract with a life insurance company. As of December 31, 2005, certain GRAVITY s subsidiaries did not introduce this plan.

9. Debt

In February and April, 2002, the Company entered into agreements with YNK Korea, pursuant to which the Company granted it the exclusive right to distribute Ragnarok for a contractual period of three years from the date Ragnarok was first commercialized. As a result of the receipt of exclusive distribution rights, YNK Korea loaned the Company W7,000 million at the inception of the agreement, which it is accounted as debt in the accompanying balance sheets, in accordance with EITF No. 88-18, *Sales of Future Revenues.*

As there is no interest rate stated in the agreement with YNK Korea , the interest is imputed based on the difference between the principal amount of the loan and the total payments expected to be made pursuant to the agreements. Accordingly, the repayment of principal amounts to YNK Korea is variable each year in accordance with amount of annual revenue generated from distribution of Ragnarok and deduction of annual interest expense allocated using the interest rate method.

	2004
	(In millions of Korean Won)
Loans, representing obligations principally to YNK Korea Inc.	
Due 2005	W 1,150
Less: Current portion	(1,150)
	W

In accordance with these agreements with YNK Korea, during the years ended December 31, 2004 and 2005, the Company recognized payments in the amounts of W7,037 million and W3,406 million, respectively to YNK Korea.

Of these loan amounts, W2,391 million and W1,150 million were allocated to principal, and W4,646 million and W2,256 million were allocated to interest, in 2004 and 2005, respectively.

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

10. Commitments and Contingencies

Commitments

In June 2005, the Company entered into a publishing agreement to acquire exclusive distribution right of the on-line game, STYLIA which is under development by Sonnori Co., Ltd. Of the total contract price of W3,000 million, W2,000 million was paid and recorded as research and development expenses.

In November 2005, the Company entered into a publishing agreement to acquire exclusive distribution right of the on-line game, Time N Tales which is under development by Ndoors Corp. Of the contract price of W2,000 million, W600 million was paid and recorded as research and development expenses.

In December 2005, the Company purchased an online game, Emil Chronicle Online , developed by GungHo. The costs related to the acquisition of Emil Chronicle Online were recorded as intangible assets amounting to W6,073 million. In addition, the Company entered into an agreement to acquire exclusive distribution right of the game.

In December 2005, the Company entered into an agreement with Movida Investment Inc., SOFTBANK CORP. and other eight companies to invest in Online Game Revolution Fund No. 1 amounting to JPY1,000 million as a limited partner with 10% interest of the total fund. The Company paid initial payment of JPY100 million and recorded an advance payment.

As of December 31, 2005, the Company has an agreement with a financial institution for foreign currency forward contract up to the limit of US $5,000 thousand. However, there is no outstanding balance as of December 31, 2005 and short-term financial instrument of W500 million is restricted from withdrawal to secure foreign currency forward contract.

NEOCYON has general borrowing facilities with a limit of W1,533 million. As at December 31, 2005, NEOCYON has an outstanding balance of borrowing amounting to W1,233 million.

The Company leases certain properties. The Company s operating leases consist of various property leases expiring in 2007. Rental expenses incurred under these operating leases were approximately W769 million, W956 million and W1,275 million for the years ended December 31, 2003, 2004 and 2005, respectively.

Future minimum lease payments for the leases as of December 31, 2005, are as follows:

	2006	2007
	(In millions of Korean Won)	
Operating lease	W 3,262	W 2,882

Litigation

In May 2005, the initial purchasers and shareholders of the ADSs filed a number of class action complaints for violation of the United States federal securities law in the United States District Court for the Southern District of New York, which were consolidated by an order of the Court entered on December 12, 2005. The complaints identify the Company and certain of its officers as defendants, and claim that the Company s registration statement on Form F-1 and the prospectus which constitutes a part of the registration statement used in connection with its initial public offering contained material misstatements. The Company believes that the claims are without merit and intends to defend the case vigorously. As of audit report date, the Company cannot determine what the final conclusion of this litigation will be, including any damages which may need to be paid or any amounts which may be paid in settlement. A judgment against the Company in this litigation may result in significant damages.

As of December 31, 2005, the Company is a defendant in two lawsuits claiming for damages. The former chief executive officer claims compensation for the unfair termination and a shareholder claims compensation

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

for the loss from late authorization of his shareholder s right. The outcome of these lawsuits cannot be determined and the ultimate financial effects cannot be estimated as of audit report date.

11. Shareholders Equity

As of December 31, 2005, GRAVITY is authorized to issue a total of 40 million shares with a par value of W500 per share, in registered form, consisting of common shares and non-voting preferred shares. Of this authorized amount, GRAVITY is authorized to issue up to 2 million non-voting preferred shares. Under the articles of incorporation, holders of non-voting preferred shares are entitled to dividends of not less than 1% and up to 15% of the par value of such shares the exact rate to be determined by GRAVITY s board of directors at the time of issuance, provided that the holders of preferred shares are entitled to receive dividend at a rate not lower than that determined for holders of common shares. Gravity does not have any non-voting preferred shares outstanding.

On February 8, 2005, in an initial public offering, GRAVITY registered 8,000,000 shares of American Depository Shares (ADS) on the NASDAQ National Market in the United States of America. Of the total shares registered, the Company sold 5,600,000 shares ADSs, and the existing shareholders sold 2,400,000 ADSs. Total cash received by GRAVITY after issue cost was W71,837 million. Four ADS are equivalent to one common share.

As of December 31, 2005, the Company had a total of 6,948,900 common shares issued and outstanding. All of the issued and outstanding shares are fully paid and are registered.

12. Stock purchase option plan

On December 24, 2004, the Company s shareholders approved the stock purchase option plan (the Plan). The Plan provides incentive stock options to officers and employees. On December 24, 2004, the Company granted certain officers, some senior employees and employees options to purchase 50,000 and 221,000 shares of the Company s common stock at an exercise price of W80,000 and W70,000 per share, respectively. The fair value of the options at the date of the grant is estimated using the Black-Scholes option pricing model. In accordance with the Plan, all of the options granted in 2004 vest over four year period, with 25% vesting after two years of continued employment, 25% vesting after three years of continued employment, 25% vesting after four years of continued employment, and the remaining 25% vesting after five years from the grant date. The options that have vested for each period must be exercised within one year from the vesting date, and options that have not been exercised during the each period shall be deemed to be terminated.

On February 8, 2005, in accordance with the terms of the stock options granted, the exercise prices for the outstanding options were adjusted to the IPO price (W55,431) for officers, some senior employees and to the IPO price minus W10,000 for employees. This repricing created a new measurement date for the Company s stock compensation expenses. The weighted-average exercise price modified is W46,697, as presented below.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

A summary of activity under the Plan reflecting modification of stock options is as follows:

	Number of Stock Options	Weighted-Average Exercise Price per Share	Weighted-Average Fair Value at Date of Grant
Stock options outstanding as of December 31, 2003		W	W
Options granted	271,000	71,845	20,211
Options exercised			
Options forfeited			
December 31, 2004	271,000	W71,845	W20,211
Options granted			
Options exercised			
Options forfeited	73,600	48,828	25,275
Stock options outstanding as of December 31, 2005	197,400	W46,697	W27,511

The total modified compensation expense relating to the grant of stock options on December 24, 2004 of W7,343 million, is recognized over the five year vesting period using the FIN 28, graded attribution model. For the years ended December 31, 2004 and 2005, the Company recognized W49 million and W1,584 million in stock compensation expense for the shares granted. Stock compensation expenses are included in selling, general and administrative expenses and cost of revenue in the statements of operations.

The following table summarizes information about stock options outstanding and currently exercisable at December 31, 2005:

Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life (Yrs)	Options Exercisable
W45,431	172,400	2.98	
55,431	25,000	2.98	

The fair value for each option was estimated, at the date of grant and repricing date, using the Black Scholes option pricing model, with the following weighted average assumptions:

	Grant Date	Repricing Date
Expected dividend yield	0%	0%
Risk-free interest rate	3.50%	3.54%
Expected volatility	53%	53%
Fair value of stock	W 55,431	W 55,431

The fair value of the stock at the date of grant was based on the initial public offering price of the Company s American Depositary Shares on the National Market on February 8, 2005, adjusted for the ratio of common stock to ADSs.

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

13. Earnings per Share

The components of basic and diluted earnings per share are as follows:

	2003	2004	2005
	(In millions of Korean Won, except share and per share data)		
Net income (loss) available for common shareholders(A)	W 19,140	W 28,057	W (3,030)
Weighted average outstanding shares of common shares(B)	5,130,895	5,548,900	6,803,147
Earnings (losses) per share			
Basic and diluted (A/ B)	W 3,730	W 5,056	W (445)

The 271,000 and 197,400 stock options outstanding as of December 31, 2004 and 2005 are excluded from the Company s calculation of earnings (losses) per share as their effect is antidilutive.

14. Income Taxes

Income tax expenses (benefit) for the years ended December 31, 2003, 2004 and 2005 consist of the following:

	2003	2004	2005
	(In millions of Korean Won)		
Income (loss) before income taxes			
Domestic	W 22,332	W 33,338	W (3,872)
Foreign	1,058	404	417
	23,390	33,742	(3,455)
Current income taxes			
Domestic	4,868	6,253	5,100
Foreign	294	308	315
	5,162	6,561	5,415
Deferred income taxes			
Domestic	1,044	1,085	5,134
Foreign	(132)	70	12
	912	1,155	5,146
Tax effect resulting from business combination			(1,086)
Total income tax expenses (benefit)	W 4,250	W 5,406	W (817)

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities and foreign currency translation. The tax effect of W1 million, W2 million and W75 million for the years ending December 31, 2003, 2004 and 2005 is recorded directly as other comprehensive income within shareholders equity.

GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of December 31, 2004 and 2005 are as follows:

	2004	2005
	(In millions of Korean Won)	
Current deferred income tax assets (liabilities)		
Foreign tax credit carryforwards	W 1,502	W 896
Tax credit carryforwards for research and human resource development	351	1,204
Accrued expense	9	417
Accrued income	(17)	(104)
Deferred expense	(152)	
Other	(1)	79
	1,692	2,492
Less: Deferred tax asset relating to other comprehensive income (loss)	1	76
	W 1,691	W 2,416
Non-current deferred income tax assets (liabilities)		
Foreign tax credit carryforwards	W	W 4,881
Tax credit carryforwards for research and human resource development		433
Depreciation and amortization	142	344
Intangible assets in connection with business combination		(874)
Impairment on other investment	192	214
Provisions for severance benefits	145	19
Unremitted earnings of subsidiary	(111)	(186)
Net operating loss carryforwards in subsidiaries	86	302
Other	8	2
	462	5,135
Less: Valuation allowance	86	338
	W 376	W 4,797

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company s ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which the Company operates, and the overall future industry outlook.

In assessing the realizability of deferred tax assets, management considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization do deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences

became deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets were deductible, management believed it was more likely than not that the Company

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

would realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2005. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period were reduced.

As of December 31, 2005, GRAVITY Entertainment Corp., the Company s 100% owned subsidiary in Japan, had available loss carryforwards of W338 million which expire in 2011 and 2012. Based on this subsidiary s historical and projected net and taxable income, the Company determined that it would not be able to realize these loss carryforwards, and recognized a valuation allowance of W86 on the full amount of the available loss carryforwards at an effective rate expected to be incurred in Japan.

As of December 31, 2005, TriggerSoft, the Company s 88.15% owned subsidiary in Korea, had temporary differences of W259 million and available loss carryforwards of W1,563 million which expire in 2010. Based on this subsidiary s historical and projected net and taxable income, the Company determined that it would not be able to realize these loss carryforwards, and recognized a valuation allowance of W251 million, on the full amount of the temporary differences and available loss carryforwards, at an effective rate expected to be incurred to TriggerSoft.

As of December 31, 2005, the Company also has foreign tax credit carryforwards and tax credit carryforwards for research and human resource development of W5,777 million and W1,637 million, respectively, which expire in 2009 and 2010.

The statutory income tax rate, including tax surcharges, applicable to the Company was approximately 29.7% in 2003 and 2004. The statutory income tax rate was amended to 27.5%, effective for fiscal years beginning January 1, 2005 in accordance with the Corporate Income Tax Law amended on December 30, 2003.

As of December 31, 2005, the Company is entitled to a reduced tax rate of 13.75% by virtue of the Special Tax Treatment Control Law of Korea, which is 50% of the statutory tax rate and applied to certain designated venture companies. As the reduced tax rate is valid until 2006, in the year 2007, the Company will reapply for its designation as a venture company. However it is uncertain as to whether the Company will obtain this designation. However, even if the Company ceases to enjoy the 50% reduction in corporate income tax rate in 2007, the Company will instead be entitled to a special tax exemption of 10% in corporate income tax rate for fiscal year 2007 by virtue of being a small-and medium-sized company. Accordingly, deferred income taxes as of December 31, 2005 were calculated based on the rate of 13.75%, 24.75% and 27.50% for the amounts expected to be realized during the fiscal year 2006, 2007, 2008 and thereafter, respectively.

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GRAVITY Co., Ltd.
Notes to Consolidated Financial Statements (Continued)

A reconciliation of income tax expense at the Korean statutory income tax rate to actual income tax expense is as follows:

	2003	2004	2005
	(In millions of Korean Won)		
Tax expense at Korean statutory tax rate	W 6,947	W 10,021	W (950)
Income tax exemption	(3,473)	(5,011)	475
Tax credit carryforwards for research and human resource development		(351)	(1,286)
Foreign tax differential	274	127	116
Expense not deductible for tax purpose	184	139	342
Change in statutory tax rate	(72)	139	26
Change in valuation allowances	(154)	86	197
Expiration of unused foreign tax credit		214	337
Income tax penalties	633	61	
Others	(89)	(19)	(74)
Total income tax expense	W 4,250	W 5,406	W (817)

15. Operations by Geographic Area

Geographic information for the years ended December 31, 2003, 2004 and 2005 is based on the location of the distribution entity. Revenues by geographic region are as follows:

	2003	2004	2005
	(In millions of Korean Won)		
Korea	W 16,475	W 13,524	W 10,093
Japan	12,180	18,372	17,246
Taiwan	11,969	14,643	10,582
Thailand	3,490	5,504	4,933
United States	2,373	3,528	2,701
China	2,089	2,842	1,178
Other	939	6,013	6,651
	W 49,515	W 64,426	W 53,384

16. Related Party Transactions

As of December 31, 2004, the Company provided loans to employees for housing amounting to W12 million at an annual interest rate of 9%. All the loans were repaid and therefore there is no remaining balance as of December 31, 2005.

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Notes to Consolidated Financial Statements (Continued)

During the years ended December 31, 2003, 2004 and 2005, there were related party transactions with a major shareholder and an equity investee as follows:

	2003	2004	2005
	(In millions of Korean Won)		
Sales to related parties	W	W	W 55
Purchases from related parties	721	938	861
Amounts due from related parties	3,800	3,899	4
Misappropriated funds receivable	7,441	7,482	
Amounts due to related parties		146	132

A majority of the purchase transactions is rental expense in accordance with agreements between the Company and the former Chairman.

Most of due from balances have resulted from leasehold deposits remitted to its former Chairman. The balances as of December 31, 2003 and 2004 are included in the leasehold and other deposits balance and due to the former Chairman s equity transfer as stated in Note 1, the former Chairman ceased to be related party on August 30, 2005.

The Company s former Chairman was found to have diverted revenues otherwise due to the Company. The Company s resulting investigation concluded that W7,482 million was diverted by the former Chairman from 2002 to 2004. And such amounts were accounted for in the line item of Misappropriated funds receivable in the accompanying balance sheets. In addition, in March 2003, the former Chairman had misappropriated the Company s cash in the amount of W1,623 million and repaid the same amount to the Company in nine days.

Due to balance represents amount of accrued expenses payable to equity investee. The balance is included in the other current liabilities in the accompanying balance sheet.

On February 20, 2003, the Company obtained a loan of W3,000 million at an annual interest rate of 18% from IAMBiz Co., Ltd. On September 30, 2003, the Company fully repaid the loan to IAMBiz Co., Ltd. On October 1, 2003, IAMBiz Co., Ltd. acquired 4.99% of the Company s outstanding common shares. On October 31, 2003, the Company disposed its sticker photo division, together with mobile phones and digital and other cameras to IAMBiz Co., Ltd. for proceeds of W510 million. On December 10, 2003, the Company also disposed its license to a horse racing game to IAMBiz Co., Ltd. for proceeds of W20 million. IAMBiz Co., Ltd. changed its name to Rhoceo Co., Ltd. (Rhoceo) on November 11, 2004. In August 2005, the Company paid W200 million to Rhoceo for licensing the game under development by Rhoceo and recorded as research and development expenses. Rhoceo Co., Ltd., which was under the control of the former Chairman ceased to be related party on August 30, 2005 due to the former Chairman s his equity transfer.

In 2003, the Company invested W1,000 million in the mobile business of Rople-net Co., Ltd. which was a subsidiary of Rhoceo Co., Ltd. and recovered W223 million and gave up its right for the remainder of investment, and purchased right to do mobile business and software totaling W123 million from Rople-net Co., Ltd. In August 2004, the Company also purchased tangible assets totaling W53 million from Rople-net Co., Ltd. Rople-net Co., Ltd., which was a subsidiary of Rhoceo Co., Ltd. and, in turn, under the control of the former Chairman, ceased to be related party on August 30, 2005 due to the former Chairman s equity transfer.

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Notes to Consolidated Financial Statements (Continued)

17. Supplemental Cash Flow Information and Non-Cash Activities

	2003	2004	2005
	(In millions of Korean Won)		
Supplemental cash flow information			
Cash paid during the year for income taxes	W 4,343	W 6,935	W 6,648
Interest paid	6,773	5,163	2,476
	W 11,116	W 12,098	9,124
Supplemental non-cash activities			
Increase of capital lease asset	W 603	W	W
Acquisitions:			
Fair value of assets acquired	W	W	W 12,774
Less: cash acquired			(150)
			12,624
Net cash paid			(9,193)
Liabilities assumed	W	W	W 3,431

18. Subsequent event

In April 2006, the former Chairman agreed to pay W4,645 million to the Company, in part to reimburse the Company for certain of the costs and expenses incurred by the Company in connection with the investigation of the former Chairman s diversion of revenues otherwise due to the Company. As a part of the settlement, the Company and the former Chairman have mutually agreed to cease both civil and criminal action against the former Chairman. In accordance with the agreement, the former Chairman is to pay W4,645 million to the Company upon ceasing both civil and criminal lawsuits against him by the Company. Accordingly, the Company withdrew both cases and received W4,645 million on May 17, 2006.

In May, 2006, the Company entered into a contract to invest in Perpetual Entertainment, Inc. (Perpetual), an on-line game developer based in the United States of America. The Company has secured right to appoint one Board member and acquired preferred stock of $9,000 thousand of Perpetual.

In May, 2006, the Company entered into a contract with YAHOH Communication Ltd. to dispose of its Assets held for sale which consist of land and building for W9,500 million.

On April 28, 2006, the Company s Board of Directors approved to establish a subsidiary in France to enter into online game servicing and publishing business. On June 2, 2006, the Company established a bank account in France and transferred EUR1,800 thousand to that account.